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The SOUTHERN ECONOMIC JOURNAL

Volume VI JULY, 1939 Number 1 -4

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A JOINT PUBLICATION OF THE SOUTHERN ECONOMIC ASSOCIATION AND THE UNIVERSITY OF NORTH CAROLINA.

Published Quarterly at Chapel Hill, N. C.

Volume VI, Number 1 July, 1939

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The Southern Economic Journal is published four times a year, in January, April, July, and October, at Chapel Hill, N. C. The subscription price is $3.00 per year, $1.00 for single copies, and 75 cents each for back numbers prior to Vol. II, No. 3. A special rate of $2.00 is granted to members of The Southern Economic Association.

Subscriptions and orders for back numbers, as well as communications concerning book reviews and all business matters, should be addressed to the Managing Editor, P. O. Box 389, Chapel Hill, N. C.

Communications concerning manuscripts should be addressed to one of the Editors.

Entered as second-class matter May 11, 1936, at the Post Office at Chapel Hill, North Carolina, under the act of March 3, 1879, section 520, P. L. & R.

Printed by the Waverly Press, Inc., Baltimore, U. S. A.

VOLUME VI NUMBER 1

The SOUTHERN ECONOMIC JOURNAL

July, 1939

EXPORT PROSPECTS FOR SOUTHERN FARM PRODUCTS

L. H. BEAN

Agricultural Adjustment Administration

Foolhardy is he who would undertake to live up to the full expectations implied in the title of this paper. Prediction is ordinarily an interesting sport especially for one who for some time has been engaged in dealing with the short and long-time outlook for agriculture. But these are no ordinary times. Neither foreign political and economic developments nor domestic policies that are forced upon us by the abnormal world situation are factors that the statistical economist can put into his predicting formulae.

I

If one may judge the immediate prospects from the tendencies at present observable, it is clear that the short-time outlook for real improvement in the exportation of the Southern farm products, cotton, tobacco, and rice are not bright. In view of the lower level of business activity abroad, large supplies of commodities competing with our exports, an intensification of foreign trade barriers, and an extension of the areas of governmental control in Europe, the export prospects for cotton, tobacco, rice and wheat for the immediate future are in fact less favorable than they were in 1938.[1]

The cotton situation is marked by a very large increase in stocks of foreign cotton which, as in the United States, resulted from

[1] See The Farm Outlook for 1939, Bureau of Agricultural Economics, U. S. Department of Agriculture.

a record production in 1937; by a curtailment of cotton consumption abroad as a result of the 1937–38 depression; by war conditions in China and Japan and recurring crises in Europe; and by continued progress in the substitution of synthetic fibers for cotton in Japan and in European countries that are on nationalistic and military bases.

In the case of rice, about two-thirds of the exports of the past season went to Cuba, but the special tariff concessions that made this possible are not now in effect. There are large harvests abroad to compete with our own large supplies. We face a trend of greater competition from Brazil and Asia in the Cuban and other foreign markets.

Foreign demand prospects for tobacco for the immediate future are also somewhat less favorable than they were a year ago. The principal market, the United Kingdom, for the bulk of tobacco exports, namely flue cured, now has above normal supplies of stocks from Empire sources, and in addition is on a lower level of industrial activity. Our tobacco markets in China and Japan continue to be restricted by war activities. The trend of production of flue cured tobacco in foreign countries is upward and is tending to lower exports below those of the past season.

With respect to wheat export prospects, nothing more needs to be said other than that the basic problems are increasingly competitive huge foreign stocks and a multitude of restrictions on wheat imports. We can no longer look toward a volume of exports equal to that of the 1920's and we are finding it very difficult at present to export any real quantity of wheat even through the device of subsidies now generally employed by other exporting countries.

An appraisal of the long-time prospects for our foreign trade in Southern farm products would call for a discussion of factors about which one can say little with definiteness. We would need to appraise the consequences several years hence of the present economic and political situation in Europe and in the Orient, and the shifts in international trade that these new situations may bring about. We would need to appraise the foreign trade policies of importing and exporting countries. We would need to project the course of production of farm products in importing and ex-

porting countries as determined by acreages and trends in yields. We would also need to deal with our own future policies and with the progress we make in getting the world to lower foreign trade barriers. On this increasingly uncertain sea of speculation I hesitate to venture forth.

The balance of this paper is therefore limited to a presentation of certain historical and current facts which will help us to narrow the range of judgment necessary in appraising prospects. For this purpose I want to deal first with the broad outlines of our domestic business situation because here we may find a substantial clue as to the aggregate value of our export and import trade. We shall deal next with the aggregate value of imports as a measure of foreign dollar purchasing power for American goods, both agricultural and industrial. Thirdly, we shall touch on some historical and current tendencies in our foreign trade in Southern agricultural products, particularly cotton; and finally, I shall refer to the part played by our agricultural programs in our prospective share of world trade in cotton. It should perhaps be said at this point that as we thus go from the general down to the specific we shall find ourselves on increasingly uncertain ground.

II

More of us in the 1930's than was the case in the 1920's understand that the aggregate value of our imports constitutes in effect the bulk of the dollar purchasing power of foreign countries for our exports. The statement that we cannot sell abroad if we do not buy has been approximately 85 per cent correct during the past 17 years: that is, the dollars we have been willing to pay for imports of goods have in effect paid for about 85 per cent of our exports. It is therefore of considerable importance that we deal with the outstanding factor determining the aggregate value of imports, namely, the value of our domestic industrial production.

Contrary to the impression of many, both the value of agricultural and the value of industrial imports are basically related to our national income or to its equivalent, the value of our agricultural and industrial production. Except in years of extreme shortages such as in 1934 and 1936, the volume of agricultural imports, even the so-called competitive agricultural imports, is

determined by the state of industrial activity and by the money purchasing power of consumers. This is just as true of industrial imports that are required in manufacturing and desired by consumers. It should therefore not be surprising that usually there is a fairly constant relation between the value of industrial production and the value of imports. Between 1900 and 1914, as the value of industrial production fluctuated and rose from 12 to 24 billion dollars, the value of imports was usually around 7.25 per cent

TABLE I

U. S. Foreign Trade and Industrial Production
(Million dollars)

Calendar Years	General Imports[1]	Total Exports[2]	Ratio Imports to Exports	Cotton Exports[3]	Ratio Cotton Exports to General Imports	Value of Industrial Production[4]	Ratio of Imports to Production
1900	829	1,478	56.1	315	38.0	11,751	7.05
1905	1,179	1,627	72.5	393	33.3	16,332	7.22
1910	1,563	1,866	83.8	531	34.0	22,065	7.08
1915	1,779	3,555	50.0	417	23.4	28,532	6.24
1920	5,278	8,228	64.2	1,136	21.5	80,929	6.52
1925	4,227	4,910	86.1	1,060	25.1	61,782	6.84
1929	4,399	5,241	83.9	771	17.5	68,559	6.42
1932	1,323	1,611	82.1	345	26.1	29,583	4.47
1936	2,423	2,456	98.7	361	14.9	55,099	4.40
1937	3,084	3,345	92.2	369	12.0	61,656	5.00
1938	1,961	3,094	63.4	229	11.7	45,046	4.35

[1] General merchandise imports.

[2] Total merchandise exports, including reexports.

[3] Including linters.

[4] Agricultural Adjustment Administration estimates (Based on data of the U. S. Department of Commerce) of the wholesale value of mining and manufacturing including processed agricultural products.

of the value of industrial production. During the postwar years, from 1919 to 1929, when industrial production fluctuated between 43 and 81 billion dollars, the value of imports usually amounted to about 6.25 per cent. In the recent years, with industrial production values ranging between 30 and 62 million dollars, imports have amounted to about 4.4 per cent. (Table I.)

This relatively greater decline in the relation of imports to domestic activity after 1929 than that which occurred between the prewar and postwar years may reasonably be associated with

the greater import restrictions that we erected in 1930 and that we have been striving to reduce since 1932.

It is important to note the dollar value of this shift in the relation of imports to domestic activity, for it suggests how much of foreign purchasing power farmers have lost as a result of this shift. In 1937 the value of industrial production was 62 billion dollars and the total value of imports was 3.1 billion dollars. In previous years of equal value of industrial production, like 1925 and 1927, the value of imports was considerably greater, about 4.2 billions. Bearing in mind that import values in 1937 were affected by the drought of 1936, we may conclude that for a given level of domestic industrial activity we imported in 1937 perhaps about a billion and a quarter dollars' worth of goods less than in the years prior to 1930. This shortage in foreign purchasing power is even greater when we take normal industrial activity as a basis of comparison. Industrial activity in 1937, had it been more nearly normal, that is, had it been in line with the long-time rate of growth of this country, would have been about 20 per cent greater and the aggregate value of imports would under those conditions have been about 600 million dollars greater. If in 1937 we could have had that normal volume of domestic activity with foreign trade conditions of the 1920's, import values might have been nearly 2 billion dollars greater than they actually were.

How much of these deficits in foreign purchasing power was shared by agriculture? We can arrive at an approximate answer by comparing agricultural exports with the foreign purchasing power represented by our total imports. At the beginning of this century we were exporting much more than we were importing. For several years, 1898–1901, agricultural exports alone amounted to more than the value of total merchandise imports. Industrial exports were obviously paid for by gold, by credit, or by the service items in the international balance of trade. In those days farmers shared abundantly in the available foreign purchasing power. Their expanding production found ready markets abroad. Foreign competition and efforts at agricultural self-sufficiency had not yet become so keen as they have been in recent years. Those were therefore peak years. From then on, our foreign customers began to purchase relatively more and more of our industrial pro-

duction. By 1910–14 agricultural exports amounted to only 60 per cent of total imports. For eight years, 1915–1922, this declining share was reversed, but by 1923 agricultural exports amounted to only 48 per cent of the value of imports; in 1929, 43 per cent; and during the 1936 and 1937 seasons 25 to 38 per cent respectively or an average of 32 per cent. The very low figure for 1936 was affected by the drought and by the improvement in business, and the higher figure for 1937 was affected by abundant crops and declining business.

From this long-time record we conclude that the agricultural share in foreign purchasing power created by imports is now approximately one-third, and that if it were possible to increase the value of imports by about $600,000,000 above the 1937 value through restoring industrial activity to normal, and by about 2 billion dollars through a restoration both of normal industrial activity and trade relations of the 1920's, the value of agricultural exports would rise by about $200,000,000 above the 1937 value in one case and by about $600,000,000 in the other.

III

We may carry this bit of analysis one step further, in view of our present interest in exports of Southern agricultural products, by raising the question, How have cotton and tobacco shared in the purchasing power abroad that we created through imports? The record for cotton since 1900 reveals several interesting facts. Cotton shared quite constantly during the period 1900 to 1914 to the extent of 30 to 39 per cent of the total value of imports, exceeding this range in only one year (1907). With the impact of the record crop of 1914 and the World War, the cotton share in foreign purchasing power fell to a lower level until the next record crop in 1926. During that interval, with the exception of one year (1919), cotton export values amounted to 19 to 26 per cent of total imports. In the 12 years since the impact of the 1926 record crop, cotton exports have amounted to 12 to 20 per cent of the value of total imports. In the record crop year of 1937 and in 1938, cotton exports in relation to total imports reached the record low figure of 12 per cent. As will appear later, our cotton loan policy in those years affected cotton exports, but even without

those programs this proportion would have been extremely low. This long-time record, with the declining tendency it reveals particularly after 1925, suggests that in the immediate future cotton exports may be expected to share to the extent of about 15 to 16 per cent in such foreign purchasing power as we may create by

TABLE II

U. S. COTTON EXPORTS AND IMPORTS OF MERCHANDISE, SERVICES, SECURITIES, GOLD AND SILVER

CALENDAR YEARS	COTTON EXPORTS[1]	IMPORTS OF MERCHANDISE AND SERVICES[2]	RATIO COTTON EXPORTS TO IMPORTS OF MERCHANDISE AND SERVICES	IMPORTS OF MERCHANDISE, SERVICES, SECURITIES, GOLD AND SILVER[3]	RATIO COTTON EXPORTS TO IMPORTS OF MERCHANDISE SERVICES, GOLD AND SILVER
	million dollars	*million dollars*	*per cent*	*million dollars*	*per cent*
1919	1,137	5,983	19.00	7,167	15.86
1920	1,136	6,485	17.52	8,390	13.54
1921	534	3,470	15.39	5,217	10.24
1922	673	4,111	16.37	5,468	12.31
1923	807	4,924	16.39	5,755	14.02
1924	951	4,828	19.70	6,188	15.37
1925	1,060	5,540	19.13	6,803	15.58
1926	814	6,263	13.00	8,475	9.60
1927	826	6,101	13.54	8,696	9.50
1928	920	6,216	14.80	9,825	9.36
1929	771	6,786	11.36	9,606	8.03
1930	497	5,092	9.76	7,959	6.24
1931	326	3,586	9.09	6,091	5.35
1932	345	2,385	14.47	4,057	8.50
1933	398	2,252	17.67	3,961	10.05
1934	373	2,541	14.68	4,977	7.49
1935	391	3,068	12.74	7,057	5.54
1936	361	3,639	9.92	7,777	4.64
1937	369	4,696	8.02	9,042	4.08
1938	229	3,251	7.04	7,079	3.23

[1] Including linters.

[2] Includes general merchandise imports, foreign shipping and freight services, tourist expenditures abroad, immigrant and charity remittances to abroad, interest and dividends paid to foreigners, expenses and remittances of U. S. government abroad, and miscellaneous commodity and service items purchased from abroad.

[3] Includes items in footnote 2 plus foreign securities floated in U. S.; change in short-term capital due from abroad; gold imports (plus net release from earmarkings); and silver imports.

importing goods from abroad, provided of course that our production is permitted to move freely into export channels and that foreign countries make no further progress in freeing themselves from their dependence on American cotton through the use of substitutes or the encouragement of competing production or more extensive military activities.

Tobacco has fared better in recent years than did cotton. It too lost ground during the early years of the war when tobacco exports amounted to 2.26 to 2.43 per cent of total imports compared with a range of 2.33 to 3.46 per cent during the period 1900 to 1914. In 1918–19 the tobacco share advanced sharply to 6.50 per cent and then fell off to 3.20 in 1927. During the course of the depression, it again attained a high share of 6.75 (in 1935) and in 1937–38 retained that favorable position at 6.35 per cent of total imports. The year to year variations in the foreign demand for American tobacco products appear to be less definitely associated with total import values than is the case with cotton. The relatively favorable position of tobacco is undoubtedly due to the world-wide increase in the consumption of cigarettes.

IV

The question may be raised as to whether other forms of foreign purchasing power that we create by purchases of gold, silver and services of various sorts, should not be taken into account. These additional forms of purchasing power go in part to balance the aggregate of imports with the aggregate of exports, but for the most part they represent the purchases of securities and financial and other transactions that do not appear to affect specific commodities. This is suggested by the fact that the share of cotton in all forms of purchasing power has fallen more than its share in terms of merchandise imports. The sum of these forms of foreign dollar purchasing power reached about 8.5 billion dollars in 1921 and again in 1926 and 1927, but cotton exports amounted to $1,136,000,000 in 1920 and only about 820 million dollars in 1926 and 1927. During this interval the cotton share in these aggregates of purchasing power fell from 13.5 per cent to 9.5 per cent. After another decline in the early 1930's the aggregate of merchandise, gold and silver imports and payments for services again

increased, to over 9 billion dollars, but cotton exports amounted to only 369 million dollars or 4.1 per cent of the total. The decline in the share of cotton in total foreign dollar purchasing power in the ten years, 1927–1937, from 9.5 to 4.1 per cent is substantially greater than the decline from 19 to 12 per cent over the same period when cotton exports are measured against the foreign purchasing power created by merchandise imports alone. The money value of the goods we import from now on is apparently going to be a substantial factor in the money income of the South from its cotton exports.

We have dealt so far with trends in export values. Recent trends in the physical volume of exports are also suggestive of prospective trends. For six of our major farm product exports the trends from 1866 to date are shown in Chart I. It is clear at a glance that the history of cotton and tobacco exports has been quite different from that of wheat, pork, lard and fruits. In the case of wheat, pork and lard the World War interrupted a downward trend in exports that set in after 1900. After the war, as a result of increasing self-sufficiency, increasing production in competing countries, import barriers, etc., exports of these commodities began to decline and by 1936 had fallen to levels lower than any since 1870–80. In the case of tobacco, exports rose sharply in 1918–19 and a good part of that expansion was maintained until 1931, after which tobacco exports returned to about the prewar volume. In the case of cotton, the effect of the World War was to curtail cotton exports, and during the 1920's cotton exports, except in the one year of a record crop, 1926–27, failed to average as high as they did during the five years before the war. In 1914, in view of the record supply, we should have exported about two-thirds of that year's record crop. Ever since the Civil War we had exported about that proportion of our increasingly larger record crops,[2] but because of war conditions our exports in the 1914–15 season fell short by about 2.5 million bales. That year probably marks the beginning of difficulties that the South was to meet in export trade. Even after the war when we again produced record crops we failed to export according to the prewar proportions. In 1925 we fell short by

[2] Percentages of cotton crops exported for 5-year periods 1869–73 to 1924–29 inclusive: 72, 72, 68, 67, 68, 69, 67, 67, 67, 49 (1914–18), 58, 59.

3 million bales of exporting two-thirds of that year's crop, and in 1926 we fell short by about a million bales. In 1937, another year of record production, that shortage was over 6 million bales.

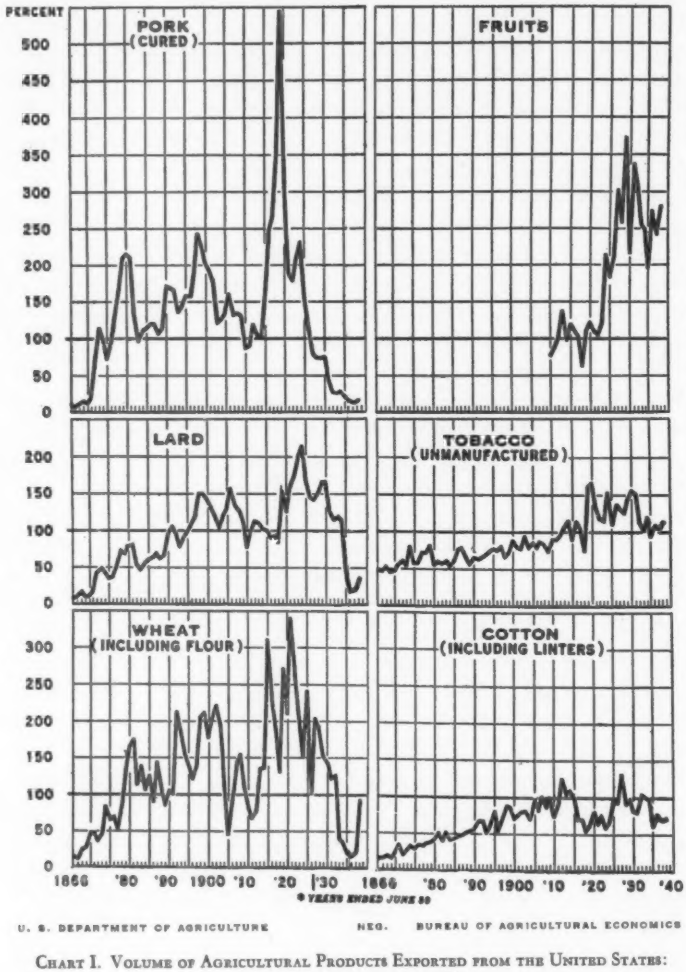

Chart I. Volume of Agricultural Products Exported from the United States: Index Numbers, 1866–1938*

V

Part of the reason for our failure to export 6 million bales more in 1937 in addition to the 5.6 million bales we did export may be

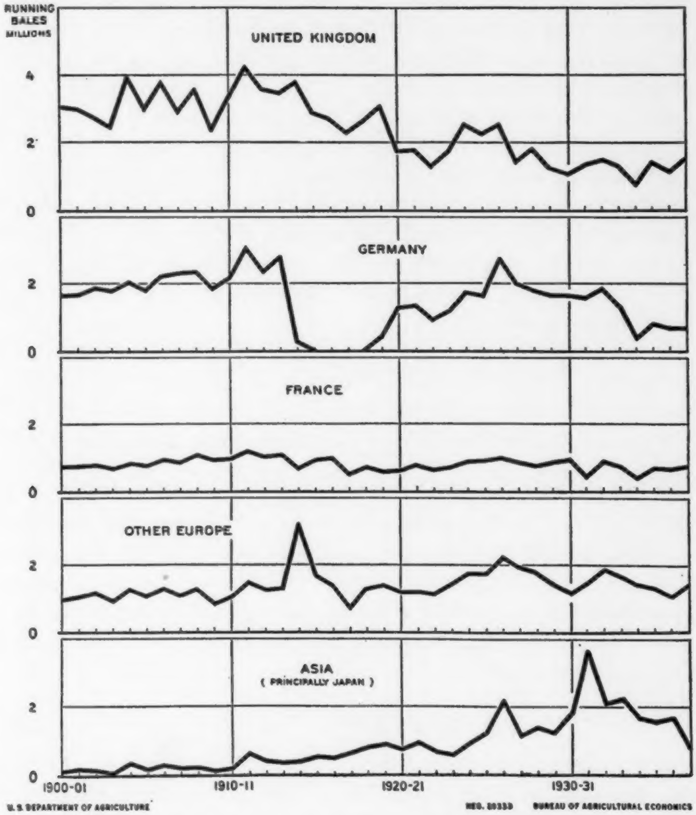

CHART II. EXPORTS OF LINT COTTON FROM THE UNITED STATES TO EUROPEAN COUNTRIES AND ASIA BY CROP YEARS, AUGUST 1 TO JULY 31, 1900–1937

seen in the record of our cotton exports to the United Kingdom, to the European countries and to Asia, contained in Chart II. Our exports to the United Kingdom reached a peak of over 4 mil-

lion bales in 1911 and then followed a downward trend until 1930, since when they have averaged somewhat less than 1.5 million bales. This loss has been largely offset by the expansion in our exports to Asia. To Germany we exported 2 to 3 million bales before the war, none during the war, and in no year since, except 1926-27, have we been able to export to that market as much as in the years before the war. After 1934 that market shrank very sharply as Germany adopted a barter foreign trade policy that curtailed the importation of American goods. Cotton exports to France also fell off during the war years, and during the 1920's also failed to attain the prewar volume. We did, however, gain in exports to other European countries. These took up a good part of the slack created by Germany's inability to import our cotton in 1914, and in the middle 1920's made up for the failure of Germany and France to purchase as much of our cotton as they did before the war.

It is clear from this record that even in the 1920's American cotton was facing difficulties abroad. One of these indications is the uneven way in which the world took our record crop in 1926. The excess production of that year that went into exports was absorbed chiefly by Germany, China and Japan. In spite of the low prices, other countries took very little more of that large crop than they did of the previous crop. Again in 1931, the excess in the near record crop of that year that we exported was taken almost wholly by Japan and China. In that year Asia purchased 3¾ million bales compared with less than 2 million bales the preceding season but that was only temporary, for there has been a decline in our exports to Asia since then.

VI

Our exports of cotton during the past two seasons, 1937-38 and 1938-39, were unusually low. The 1937-38 exports of less than 6 million bales fell short by about 2.5 million bales of the average of the 1920's. The exports of 1938-39 of about 3.5 million bales represent an additional shortage of about 2 million bales. In viewing the prospects for the immediate future, we need to examine the 1937-38 experience largely in terms of external factors, such as foreign production and foreign exchange and shifts in

foreign trade. The even more abnormal 1938–39 situation needs to be examined also in terms of the additional influence of the U. S. government loan policy.

The relative importance of the external factors and of the internal government operations in the decline in our cotton exports is difficult to measure, but some suggestions may be derived from the exports in the three seasons of record or near-record production—1926, 1931 and 1937. The 1926 crop was a record of 18 million bales and we exported in that season about 11 million bales. This was about one million bales short of the prewar proportion going into export. The 1931 crop was 17 million bales and exports amounted to about 9 million bales, or about 2.5 million bales short of the prewar proportion. This increasing loss in exports relative to available supply may be taken as due chiefly to external developments, such as increasing foreign competition, increasing use of substitutes, lack of foreign exchange and trade restrictions. While the U. S. government held cotton under loan in that year, government stocks were being reduced. The loss in exports of 2.5 million bales in the 1931 season may therefore be attributed chiefly to external developments.

Exports during the 1937 crop year showed a much greater loss. With a record crop of nearly 19 million bales, exports should have been over 12 million bales. This additional loss can be related to the cotton loan program which diverted about 5 million bales of the 1937 crop from trade channels, but out of the remaining supply we should have exported 8 to 9 million bales instead of barely 5.6 million.

These comparisons suggest that both external factors and our internal loan program were responsible for the failure to export a more nearly normal volume of cotton in 1937; and if we bear in mind that price relationships in 1937 were not abnormal, it would appear that external factors exerted the dominant influence, perhaps twice as important as the loan program.

The nature of some of the external factors involved in the low exports of 1937 may be visualized by examining the changes in exports to the different countries. It is highly significant that of the total decline in exports between these two seasons amounting to 2.8 million bales, 2.3 million occurred in our trade with Japan,

Germany, China and Spain, and another 200,000-bale loss in our trade with Italy and Russia. The losses in trade with Japan and China are attributable largely to war activities. In this connection it may be observed (1) that the relatively large exports to the United Kingdom in 1937–38 are largely a competitive offset to the decline in takings by Japan, and (2) that Japan has been expanding the production of synthetic fibers very rapidly and is requiring the mixture of staple fiber with cotton in certain kinds of yarn in domestic use.[3]

The loss in exports to Germany began with the 1934 season, when it adopted its new foreign trade policy and shifted its purchases of cotton to those countries with which it could deal on a barter basis and on the basis of special exchange. The reduction in purchases of American cotton has only partly been replaced by cotton from South America and other countries, the deficit being more than made up by an increase in the use of substitute materials. In 1933 the supply of cotton in Germany was 768 million pounds compared with 153 million of substitute materials; but in 1937 the supply of cotton was down to 573 million pounds and substitutes had increased to 551 million pounds.

From these and similar facts it is clear that a substantial part of the decline in exports between 1932 and 1937 is in large measure the result of abnormal trade conditions and war activities.

The further decline in exports during the 1938–39 season to a low volume of about 3.5 million bales is apparently due chiefly to the further movement of cotton into government-held stocks as a result of the loan value remaining above market prices. About 4 million bales of the smaller 1938 crop was thus diverted from trade channels with the result that no more than about 3.5 to 4 million bales could be exported. As of February 1, 1939, the total supply of American cotton in the United States was 18.1 million bales, of which 11 million was in government stocks with no authority to release to the trade unless prices advanced above the loan value and accumulated storage costs. Exclusive of stocks held by mills there were only 4.9 million bales of cotton available for domestic consumption (about 3.2 million bales) for the balance

[3] See Agricultural Situation, June 1938, Bureau of Agricultural Economics, U. S. Department of Agriculture.

of the season, leaving only 1.7 million bales including some unspinnable and some untenderable cotton available for export. With exports of only 2.3 million bales during the first half of the season and with huge stocks of foreign cotton also available abroad, it is clear that total exports for the whole season could amount to only about 3.5 million bales.

Those who hold that a relative shortage of American cotton would force foreign countries to bid up the price of American cotton apparently failed to take into account the large stocks of foreign cotton that had been built up by the beginning of the 1938 season. Foreign stocks of American cotton which have ordinarily been less than 5 million bales rose to 6.8 million bales in 1934 and then to 9 million bales in 1938. The relatively small supply of "free" American cotton and the large supply of foreign cotton are reflected in the fact that prices of Indian cotton in January, 1939, were only 69 per cent of American compared with a normal of 79 per cent; prices of Egyptian cotton were 114 per cent compared with a normal of 126 per cent; and prices of Brazilian cotton 95 per cent compared with a normal of 96. An additional factor in exports, though less significant in consumption, was the distorted relation between spot prices and prices of distant futures.[4]

VII

Much thought is being given to ways of correcting our exceedingly small share in cotton consumption abroad. How much of our former share can we regain by dealing only with the internal factors of government loan stocks and price adjustments? Total consumption outside the United States amounted to 21.8 million bales in 1937–38, of which American cotton constituted 5.3 million bales or about 24 per cent. The 1938–39 share was even lower—about 21 per cent. This may be compared with about 60 per cent before the World War and an average of 44 per cent during the 1920's. It may also be contrasted with our share in the world supply of American cotton (exclusive of domestic consumption) of 43 per cent. During the 1920's the changing share of American

[4] For price, supply, export and other data used here, see letter of Secretary of Agriculture H. A. Wallace to Senator Smith, March 2, 1939, supplementing testimony before the Senate Committee on Agriculture, February 23, 1939.

cotton in total cotton consumed abroad corresponded to the variations in the American proportion of the total supply available for foreign consumption. But ever since 1929 the consumption share

TABLE III

SUPPLIES OF RAW COTTON AND SUBSTITUTE MATERIALS IN GERMANY[1]

	1933-34	1934-35	1935-36	1936-37	1937-38
	million pounds	*million pounds*	*million pounds*	*million pounds*	*million pounds*
Raw cotton, net imports	768	459	580	470	573
Cotton waste, linters, reclaimed cotton, etc., net imports	100	198	165	203	238
Reclaimed cotton, domestic production	44	53	60	71	77
Cell wool, domestic production	9	18	44	141	236
Total	921	728	849	885	1,124

[1] The Cotton Situation Summary, September 29, 1938, USDA.

TABLE IV

U. S. EXPORTS OF AMERICAN COTTON BY COUNTRIES 1932-33 AND 1937-38

	1932-33	1937-38	CHANGE
	thousand bales	*thousand bales*	*thousand bales*
Japan	1,743	690	−1,053
United Kingdom	1,492	1,552	+60
Germany	1,318	656	−662
France	709	716	+7
Italy	649	506	−143
China	375	23	−352
Spain	275	1	−274
Canada	270	246	−24
Belgium	121	190	+69
Netherlands	111	117	+6
Russia	50	[1]	−50
India	18	141	+123
Other countries	513	760	+147
Total	8,419	5,598	−2,821

[1] Less than 500 bales.

has been relatively low and in 1938-39 it was only about one-half of the supply share.

The record of both our share in foreign consumption and our share

in supplies available together with the portion of supplies held in government stocks is contained in Chart III. The record crop of 1926 gave us a supply share of 53 per cent. The near-record crop of 1931 and a large carry-over increased American supply share to 58 per cent. This proportion fell to 32 per cent by 1936 partly as a result of reduced domestic production and partly as a result of increased foreign production. The failure of the record crop of 1937 to raise our supply share to more than 43 per cent also reflects the increase in foreign production to a new record, but in

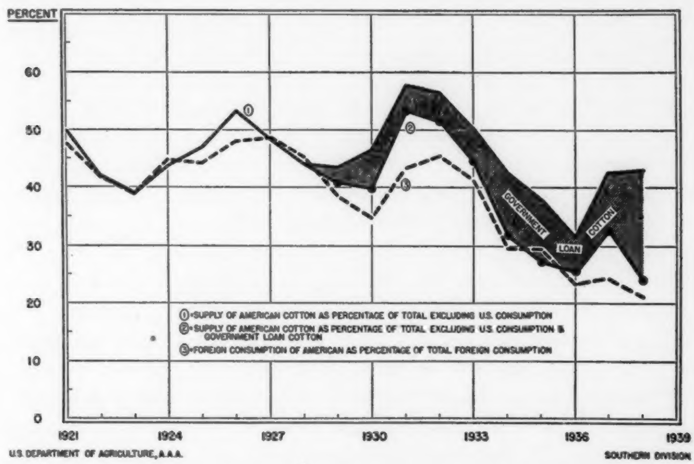

CHART III. THE UNITED STATES' SHARE IN FOREIGN CONSUMPTION OF ALL COTTON AND IN AVAILABLE SUPPLY, 1921–1938

view of the long-time trends in foreign production in contrast with the slower trend in the United States,[5] 43 per cent may be taken approximately as our normal supply share at present, and therefore about 43 per cent as our normal share in foreign consumption.

To what extent did the government loan stocks in 1938–39 and the accompanying price maladjustments cause our share in foreign consumption to decline to only 21 per cent? A statistical cor-

[5] See "Trends in Cotton Production and Consumption" by L. H. Bean in the April 1939 issue of this *Journal*.

relation analysis of this problem[6] indicates that government loan stocks and prices of foreign cotton in relation to American go only about halfway in explaining this decline. In other words, were price relationships normal and all government loan stocks released to the trade, our share in foreign consumption would now be 30 to 33 per cent. These two factors alone, that are under our control, would thus restore only about one-half of the loss in our share in foreign consumption. The restoration of the other half would depend upon the removal of trade barriers, exchange restrictions, and restoring normal peacetime activities in China, Japan and Europe.

VIII

From these facts, we conclude with respect to cotton export prospects that if we could regain a 43 per cent share of foreign consumption, with foreign consumption of all cotton at 22 million bales, we would be exporting annually an average consumption of about 9.5 million bales. This is about twice the 1938–39 foreign consumption of American cotton. One-half of that increase depends on external factors; the other half could be obtained by a complete release of government loan stocks at world prices.

The export prospects for cotton, in so far as we have the power to affect them, depend on how we resolve the conflict between our desire to have a larger share in the foreign cotton markets and our desire to have a better standard of living in the South derived from cotton. If it is resolved in favor of larger exports by releasing the government-held cotton and thus driving the price level down, the gain in exports of say, 2.5 million bales would hardly be worth the economic cost to the South. If it is resolved in favor of maintaining farm income by an abnormal price and increasing holdings

[6] For the benefit of those acquainted with the graphic correlation technique, it may be pointed out that in this analysis the annual consumption ratios of 1921 to 1938 were taken as the dependent variable, and the supply and price ratios as independent variables. Supply ratios (exclusive of government stocks in seasons of accumulation) were averaged for two year periods to give effect to the lag that appears in Chart III (see 1920 and 1921; 1926 and 1927; 1931 and 1932). Price ratios for Indian, Egyptian and Brazilian cotton as percentages of American for years beginning in April were weighted by yearly consumption of these three growths. Taking supply and price ratios into account, there appears to have been a downward trend in the consumption ratio after 1928 equivalent to a decline from 43 to 31.

by the government, our share in foreign cotton consumption could easily go still lower. A solution somewhere between these two extremes is probably what practical statesmanship should aim at.

In any case the prospect for our foreign trade in cotton as well as our foreign trade in other Southern products is probably as different from what it was in the 1920's as the present political and economic face of the whole world differs from that of the 1920's.

SOUTHERN FOREST RESOURCES AND INDUSTRIES

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The South is already conscious of the growing importance of developing its forest products industries. Neither the present nor future potentialities of these industries can be intelligently considered, however, without reference to the care of the basic forest resource. This is because the industries are each year drawing raw materials from the forest in excess of the annual growth in volume.

The 14 states south of the line marked, in a general way, by the Potomac and Ohio Rivers and the north boundaries of Arkansas and Oklahoma contain over 200 million acres of commercial forest land. This is about 55 per cent of their total area. Within the next few years crop reduction and conservation programs may add enough land to bring the total to over 60 per cent of their area. The potential productivity of these forest-soils could hardly be matched by any other extensive forest area in the world. Its actual yields as now managed are only a small fraction of its possibilities.

According to the ideas of forest management almost universally pursued to the present time in America, the 386 billion board feet of standing timber in the Southern forests would have been looked upon as a wasting asset to be liquidated at the convenience of the owners. Modern ideas, both of resource management and of ownership responsibilities, insist on conserving this timber growing stock and converting it to an increasing permanent asset. Through skillful management it can be made to yield larger volumes of forest raw materials year by year.

This brief preview of productive possibilities shows that by reason of the enormous land area occupied and of its potential productivity, the forest resource should have broad consideration in any review of the economic base of the South.

I

Before discussing the more technical aspects of the forest resource and industrial problems it seems desirable to consider what basic social-economic services are desired from the Southern forest industries. The forests of the South fit almost equally well into a self-contained economy, primarily rural, or into a national industrial economy. As the South seems to have its vision set on the latter, this discussion is built around contributions of its forests and dependent industries to further development of an industrial economy. This, of course, should be harmonious with other social values. Before considering changes in this or that field of industry, reasonable agreement on desirable objectives for the whole social-economic field would be highly advantageous.

None would contemplate an increasingly industrialized economy if he did not believe it would assist in bringing rising standards of living. To attain this, in a broad sense, requires increased productivity of the average member of society. This is facilitated and made effective by maintaining the optimum proportions of workers in different fields of industry—in other words, balance between the industries. The distribution of employment into the three major fields of extractive industries, (including agriculture, forestry, mining, and fisheries) refining industries (manufacturing), and distributive and personal service industries is an index of conditions in a given region.

The balance attained to date in the South can be best judged by comparison with two regions generally rated as successful in utilizing the productive energies of their people. Table I tabulates the comparative figures for the 14 states of the South, for the Middle Atlantic states, and for the three Pacific Coast states.

From the table it may be noted that the Middle Atlantic states, which have been extremely successful in applying an industrial economy, and the Pacific Coast states, which have attained more than ordinary success in integrating their rural and industrial economies, had in 1930 over 55 per cent of their gainfully employed persons in the distributive and personal service fields. In contrast, the South as a whole had in 1930 only 36.34 per cent of its people in these fields. In the deep South the proportion was less than 33 per cent. Agriculture still had over 41 per cent of the gainfully

TABLE I

OCCUPATIONS, BY INDUSTRIES, BY CLASSIFICATION OF 15TH CENSUS, VOL. IV, 1930

OCCUPATIONAL GROUPS	14 SOUTHERN STATES[1]		MIDDLE ATLANTIC STATES[2]		PACIFIC COAST STATES[3]	
	Population and number of persons employed	Distribution of gainfully employed	Population and number of persons employed	Distribution of gainfully employed	Population and number of persons employed	Distribution of gainfully employed
		Per cent		*Per cent*		*Per cent*
Total Population	35,500,858		28,617,525		8,194,433	
Homemakers	6,415,380		5,819,290		1,718,945	
Population Gainfully Employed	13,295,381	(100.00)	11,972,382	(100.00)	3,575,019	(100.00)
Extractive Industries (Total)	5,908,740	44.44	1,021,979	8.54	629,107	17.60
Agriculture	5,478,959	41.21	684,838	5.72	517,980	14.49
Forestry & Lumbering	65,075	.489	9,497	.08	50,713	1.42
Fishing Industries	30,608	.23	10,458	.09	12,784	.36
Extraction of Minerals	334,098	2.51	317,186	2.65	47,630	1.33
Refining Industries (Total)	2,554,584	19.22	4,276,353	35.72	932,141	26.07
Major Wood-using & Mfg. Industries	525,557	3.96	400,193	3.34	172,911	4.83
Other Mfg. Industries	2,029,027	15.26	3,876,160	32.38	759,230	21.24
Distributive & Personal Service Industries (Total)	4,832,057	36.34	6,674,050	55.74	2,013,771	56.33
Transportation & Communication	856,187	6.44	1,068,267	8.92	295,953	8.28
Trade	1,224,320	9.21	1,691,373	14.13	585,604	16.38
Public Service	185,133	1.39	258,155	2.16	82,978	2.32
Professional Service	651,362	4.90	890,149	7.43	316,321	8.85
Clerical Occupations	553,413	4.16	1,427,320	11.92	335,207	9.38
Domestic & Personal Service	1,361,642	10.24	1,338,786	11.18	397,708	11.12

[1] Va., W. Va., N. Car., S. Car., Ga., Fla., Ala., Miss., Tenn., Ky., Ark., La., Texas, Okla.

[2] N. Y., N. J., Penna., Del., Md., D. C.

[3] Calif., Oreg., Wash.

employed as against less than 15 per cent in the agriculturally active Pacific Coast states.

This experience of other regions indicates that among a people using large quantities of goods and services there will be found 50 per cent or more of its gainfully employed people in trade, transportation and service industries. High rates of production and of income are necessary in the extractive and refining industries to demand the services of so many in the service fields.

If the South is to adopt an industrial way of life and consume the goods produced in large volume by an industrial civilization, it is inevitable that there must be a large shift of industry and employment from the extractive field, particularly agriculture, to the refining industries and to the distributive and service industries. As a matter of fact, this shift has been under way for some time.

The foundation for a further shift can be established only by building up the refining industries and increasing the productivity of workers who remain in the extractive industries. Purchasing power consists of the sum of goods and services produced. Therefore, increased production and income from these two sources constitute the practical means of providing purchasing power to absorb goods and services from the distributive and personal service field. The extractive and refining industries must be in a healthy condition to prevent the economic pyramid from standing on its apex rather than on its base.

The shift from the extractive industries in the South should not be expected to reduce occupations in this field to the low level of the Middle Atlantic states cited; or perhaps even as far as in the Pacific Coast states. The shift to the refining industries probably does not need to be extremely large. What is necessary is sufficient shift to diversify employment opportunities and promote high rates of productivity in the extractive and refining industries working side by side. A Southern group in the extractive industries beyond most other regions would be commensurate with the extent of the natural resources and would provide for a large trade in raw materials with those regions of less abundant resources.

A mere shift in numbers from the extractive to the refining field cannot in itself result in much progress unless relatively high rates

of productivity and incomes go with it. It is hoped this preliminary discussion may promote clear understanding of the kind of contribution industries dependent on the forest resource can make to the economic base of the South. If this analysis of desirable social-economic trends approximates the truth, it can be used as a standard for weighing some aspects of the present and future possibilities of industries dependent on the forests. Among other things, it seems perfectly clear that expansion in this field should look first to a degree of efficiency and productivity, in all new undertakings, that will permit adequate and equitable returns to labor, management, and to investors.

II

The present industrial development based on the forest resource is not negligible. Table II tabulates, by industries, the volume of raw material used and the present volume of employment by each of the major uses and industries. The table shows that total yearly utilization of wood in the South is about 5.8 billion cubic feet and that loss through fire, insects, disease, etc., brings the total annual forest drain to 6.7 billion cubic feet. Annual growth is about 6.5 billion cubic feet. Present uses of wood are estimated to provide about 120 million man-days of labor annually. Should production be doubled, as hereafter suggested, labor requirements would probably be in excess of 250 million man-days because of increasing refinements in manufacturing and of men added to care for the resource itself.

Some of these industries hark back to bygone times in their industrial practices, but on the whole, even the older ones, such as the lumber industry, have been modernized at least in part. The recently expanded industries, such as the pulp and paper industry, are working almost entirely with plants of the most modern design. In these fields, the South has a great advantage over regions burdened with old and nearly obsolete plants. In the older industries of the region there is much room for further modernization.

Although direct comparisons are difficult, it is fairly certain that returns from these industries to the participating groups compare favorably with most industries in the South. Undoubtedly returns to labor are higher than in the major part of the agricultural

TABLE II

ESTIMATED VOLUME OF FOREST RAW MATERIALS USED, AND VOLUME OF EMPLOYMENT IN SOUTHERN FOREST INDUSTRIES, 1936*

INDUSTRY OR USE	QUANTITY IN USUAL UNITS OF MEASURE	VOLUME IN TERMS OF A UNIFORM STANDARD OF MEASUREMENT			VOLUME OF EMPLOYMENT	
		Total	Softwood	Hardwood	In the woods	In mfg. plants
		Thousand cu. ft.	*Thousand cu. ft.*	*Thousand cu. ft.*	*Man-days*	*Man-days*
1. Lumber	12,672,500,000 ft. B.M.	2,677,360	1,750,980	926,380	15,840,625	26,612,250
2. Fuelwood	36,982,000 cords	1,942,140	951,180	990,960	46,227,500	
3. Hewed ties	25,019,000 pieces	298,020	154,900	143,120	3,502,660	
4. Piling, poles, and posts	223,268,000 pieces	232,270	131,900	100,370	4,966,110	
5. Pulpwood	2,506,000 cords	223,640	209,500	14,140	2,255,400	3,759,000
6. Veneer logs	561,361,000 ft. B.M. Doyle Scale	162,290	20,320	141,970	1,122,722	2,806,805
7. Cooperage	527,922,000 pieces (staves) and sets (heading)	101,220	28,240	72,980	1,102,200	2,024,400
8. Round mine timbers	52,912,000 lin. ft.	66,920	8,800	58,120	529,120	
9. Logs and bolts in misc. mfg.	184,460,000 ft. log scale (Doyle)	52,090	2,250	49,800	368,920	645,610
10. Distillation and tanning extract wood	451,000 cords	31,880	100	31,780	676,500	
11. Shingles	185,000,000 pieces	5,890	4,950	940	46,250	83,250
12. Excelsior wood	53,000 cords	5,150	4,750	400	33,390	10,070
13. Export logs and hewn timber	6,902,000 feet log scale	1,750	40	1,750	13,804	
Total timber used (cu. ft.)		5,800,620	3,267,910	2,532,710	76,685,201	35,941,385
Timber destroyed by natural agencies					Total man-days in woods and mill = 112,626,586 Additional naval stores industry = 11,000,000	
Fire		325,000	205,000	120,000		
Disease		205,000	5,000	200,000		
Insects, drought, wind, etc.		358,000	310,000	48,000		
Total losses		888,000	520,000	368,000		
Total used and destroyed (cu. ft.)		6,688,620	3,787,910	2,900,710		
Total growth (cu. ft.)		6,495,000	(approx.)			
Deficit		193,620	(approx.)			

* Based principally on findings of Forest Resource Survey of Southern and Appalachian Forest Experiment Stations.

field. Defects in the way of low outputs and incomes per worker spring directly from the deterioration of the forest resources through past neglect. In the South, lumber production, including logging and saw milling, typically requires as much as 27 man-hours per thousand board feet. The same job is done in the Pacific Northwest in 15 man-hours or less. Opportunity to observe workers in this field, both in the South and the Pacific Northwest does not disclose any marked difference in efficiency of the labor. The difference in outputs arises directly from differences in condition of the resource, and indirectly from the greater mechanization which is possible for handling large Pacific Coast timber.

These general figures are consistent with numerous production cost studies of the Forest Service, which show that with labor at normal wage rates, trees less than 14 inches in diameter can seldom be made into lumber at a profit at the present wage level. Southern industries need bigger and better timber as a prerequisite to improving their products and the industrial outputs and incomes of persons engaged in them.

These conditions emphasize that the improvement in existing forest industries and expansion programs must be founded on radical improvement in care of the forest resource. Unfortunately, in their technical aspects, the standards of forest resource management lag far behind manufacturing practices. Modern scientific procedures have been applied in certain manufacturing processes to produce goods of high quality at the least possible cost. Meanwhile the forest resource so far suffers from neglect that it produces no more than one-third to one-half of its potentialities. In making this statement highly intensive forest management such as applied to European forests is not considered, but only such practical measures as would be reasonable and profitable under American conditions.

Low rates of volume production, relative to potential productivity, account for the fact that the volume of wood used and lost through destructive agencies exceeds the current growth. Several years of improved care will be necessary to bring growth into balance with present use of forest raw materials; and a vast and radical program of better forest management should be put in full swing whenever expansion of forest industries is undertaken.

The most important measure to improve management is coordination between the industries in their demands on the forest resource. Some industries are indispensable instruments in the care of the forest—providing intelligence and consideration for the welfare of all are used in their raw material purchasing programs. Thus the fuelwood, the pulp and paper, and the distillation industries, well able to use material from small and from poorly formed trees, are notable in this connection.

These industries constitute natural outlets for material that must be removed and sold by forest owners who have undertaken systematic care of their properties. Raw materials for these industries should consist primarily of by-products of good forest management, selling in all countries at prices too low to give returns from management equal to those from forests devoted primarily to production of higher value products, such as saw logs and veneer logs. In the South these cordwood products yield stumpage returns from 0 to 1 cent per cubic foot, whereas good saw timber is worth now 2 to 6 cents per cubic foot. Timber suitable for high-grade veneer logs is worth much more.

Misdirected purchasing policies by cordwood-using industries, carelessly causing premature cutting of young stands are, however, extremely destructive. They cause the destruction of thousands of acres of young stands. In the end these policies must react disastrously on these industries. By destroying the yield of high-quality timber, they will remove their own raw materials from by-product status to the main product of forests thus badly managed. Prices will thus have to include all costs of production including high tax rates because the tax base will have been restricted by curtailment of resource values and by liquidation of industries needing larger timber.

These industrial relationships emphasize that the well-managed forest must also be the actively used forest. The unused forest is the stagnated forest with much of the growth offset by decay and with much space occupied by trees in need of removal. These facts illustrate how closely the forest industries are tied to the management of the forest resource. This is true whether individual manufacturers own timberland or not.

Better fire protection, discontinuance of premature cutting of

young stands, and intelligent partial cuttings in developing stands are necessary—in short, vast improvement in the care of every forestry property. Unless the known procedures of good forest management can be promptly applied it will be futile to expect any material improvement in operating results from existing forest industries. Immature and poor quality timber from neglected forests is too expensive to log and too poorly adapted to industrial uses to form a basis for improvement. Certain pioneer companies and individuals, in actual control of considerable forest areas, have recognized these facts and have put into effect sound management practices. After a few years, improvement of productivity and in quality of material produced is already evident.

III

To bring about rapid improvement in the forest resource, a few fundamentals may be summarized:

First, Southern leadership should everywhere be apprised of the urgency of this problem.

Second, forest properties should be actively operated for current returns at the same time as timber growing stock is being increased. This is done by utilizing 60 to 80 per cent of the volume of growth and adding 20 to 40 per cent to permanent growing stock. It should be realized that forestry is as much a current yielding investment as a railroad or any industrial enterprise.

Third, all larger industries owning forest lands should reasonably be expected to raise the level of technical management of the resource to that applied by them in manufacturing and marketing.

Fourth, to meet the needs of thousands of owners of small forest properties, a program of adult education and of public assistance far beyond anything yet proposed should be conducted through channels of federal agencies, state extension services, state foresters organizations, etc.

Fifth, thousands of small forest owners, and some larger owners, lack financial resources to discontinue cutting of immature timber and to give it proper care for a period of years. National organization of forest credit seems the only way to meet this and other forest resource credit needs. This would enable all owners of young timber to confine cutting for several years to thinnings and other cuttings for improvement of growth and quality.

In the long run, if intelligence is applied to management of the Southern forest resource, it will create the capital values involved in its own rehabilitation and the capital required for expansion of the forest industries. In the entire world's history only a few instances are recorded of man-made capital having been conserved and made to accumulate at compound interest for as much as a century. Growing trees and the forest made up of such trees are the only natural agency which can accumulate values at compound interest rates over long periods of years.

IV

There is no reason to doubt that if well-directed efforts bring positive improvements in the productivity of the forest resource and the quality of the forest raw materials produced, industrial expansion will follow naturally.

There is, of course, much to gain by wide distribution of industrial plants, aside from the resource management phases. It helps maintain rural social-economic well-being, provides free choice of occupation to many persons, is valuable from the standpoint of national defense, and in many other ways. Few industries draw on such widely distributed raw materials or possess the same opportunities as the forest industries for dispersion through large regions.

It is interesting to speculate on the more remote future. If resource management should receive the close attention herein suggested and industrial developments should be well-distributed, how far could Southern forest industries expand? Should care of the Southern forests bring them to twice their present yield, this would be approaching the entire forest products needs of the nation at the present level of demand.

It is, of course, out of the question for other forest regions to cease to contribute to their own needs and to national requirements. Consequently, the first question regarding the future is whether the total national requirements will increase. To this there is no positive answer. Certain assumptions appear to contain truth.

First, assuming, as suggested earlier, that in the South there may be a considerable reduction in the number of persons unremuneratively engaged in extractive industries and an increased

effectiveness of those that remain; assuming an increase in refining industries, selectively carried out with regard to the desirability of all accessions; and assuming increased demand for goods and for distributive and personal services arising from higher incomes in the extractive and refining fields; then the South should be able to increase very materially its own demands for forest products. It could use more lumber in housing, more newsprint by its press, more kraft paper in selling consumer goods, and so on down the line.

Second, national requirements elsewhere may increase materially. The trend of wood consumption in older countries has been upward for centuries. With coal and iron it rates among the three heavy raw materials most used in industry. No one can foresee the full possibilities of developing future uses of wood. Most of the major uses of wood today such as railroad ties, telephone and power poles, pulp and paper, were developed within the past century. Unless invention and science lag in future, equally revolutionary changes may be expected.

All the possibilities of expanded domestic markets can hardly be expected to absorb the full output of the Southern forest resources should they be placed under as intensive management as here suggested. No consideration, therefore, of future expansion of forest industries can be complete without mention of foreign trade possibilities.

The United States, according to population experts, will long continue to be a country of low population density and therefore large resources per capita. As compared with European countries, for example, it has about five acres of forest per capita as against about one-half acre per capita in Germany. In the awakening Orient, the forest area per capita is insignificant.

It is natural, under these conditions, for the United States to be a producer of surplus raw materials. It is equally natural, in this industrial age, for countries with great surpluses of man power to produce quantities of manufactured goods to exchange for raw materials. These conditions create a pressure for international trade in which forest raw materials may be exchanged for goods from these densely populated areas.

Of significance in Europe is the considerable diversion of wood

use from lumber to chemical use (pulp, paper, textiles, sugar, etc.). The net result of the resource and industrial situation of Europe is that a large potential demand for imports of lumber, veneer logs, etc. exists and may increase.

The situation in Oriental countries is also of significance. They, too, may use lumber in greater quantities but the increased consumption of paper and the use of wood cellulose in textiles may be of much greater import. The approximately one billion people who live in the Orient are in need of vast quantities of cheap cellulose to which Southern forest industries may well contribute.

Today it can be estimated roughly that if the product of one man-hour of work were used as a medium of exchange, the products of Southern labor in the forest industries would exchange on a fairly equal basis for products of labor in most countries of northern and central Europe. In the Orient the goods produced by one man-hour of Southern labor might exchange for the products of as much as 5 hours of Oriental labor. Transportation and distributive services would, of course, intervene in these exchanges, but no more than in domestic exchanges.

The United States contains about 6 per cent of the world's population but it consumes about 50 per cent of each of the principal commodities of commerce other than food products. It might not be an exaggeration to say that the prosperity of the world for the next 100 years rests on the trade relations between us and other countries. Effective trade relationships will depend primarily on the United States learning to conduct itself as a creditor nation instead of debtor nation as in the past.

The magnitude of the forest resource in the South; its undeveloped state; the ready absorption of forest raw materials into a great variety of old and new industrial uses warrant treating it as the key log in any widespread economic change in the South. As a catalyzer in the whole economic field it may well have influences far beyond the direct employment opportunities it provides.

It would therefore be a foresighted and safe procedure in the South for all agencies, private and public, having direct or indirect control of forests to apply improved management methods with definite intention of increasing yields to twice the present level—that is an increase to 13 billion cubic feet per year. Considering

the preliminary educational and other measures necessary this goal can hardly be reached in less than 30 to 50 years. Many of the first years will be required to catch up with the demands of existing industries. More years will doubtless go to overtaking further industrial expansion. But improvement in the quality of the resource can be most rapidly attained in forests subjected to active use, providing cuttings are intelligently made.

If, in time, more material is grown than consumed, accumulation of resources of standing timber is a distinct advantage. It provides a margin for new uses, foreign trade, national defense, and general measures of safety. An economy of abundance as to standing timber supplies will always provide many residual advantages in conserving the soil, the watersheds, and many other benefits aside from providing commercial supplies. With unrenewable resources and dependent industries, certain in time to undergo inevitable declines, it is of great importance to build up this exceedingly important renewable resource.

RECENT SAVINGS BANK INVESTMENT POLICY

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The changing economic conditions of the past decade have drastically affected all American financial institutions. The importance of one type of financial institution is probably not widely recognized. Mutual savings banks exist in only 17 states and are important only in parts of New England and New York State, but they hold approximately one-fifth of all banking deposits in the country. These banks, which are owned by the depositors who receive dividends rather than interest on deposits, date the beginning of their history in this country in 1816, when they were transplanted from England. Inasmuch as they have originated usually from philanthropic motives and in places where there were relatively large numbers of wage earners, these banks did not tend to grow up in the South and West, where there was either a lack of funds for philanthropy or no need for such an institution. The investment experiences of these banks during the depression of the 1930's have differed widely from those of any previous period, and are illustrative of the financial difficulties of these years.

These experiences may be illustrated by the developments in New York State, as the savings banks in that state hold approximately half of all savings bank deposits.[1] They may be treated under four headings, (1) the shift from mortgage loans to bond investments; (2) the shifts between types of bonds, such as from railroad to federal government obligations; (3) a movement from lower to higher grade securities; and (4) a change in the maturities of the portfolios.

I

The shift from mortgage loans to bond investments was prompted by the unprecedentedly poor showing of the mortgage loans under

[1] The statistics for this paper are taken for the most part from the writer's *Savings Banking in New York State* (Durham, North Carolina: Duke University Press, 1939).

the stress of a severe and prolonged depression. Previous panics, as for example the one in 1907, had convinced the savings bankers that mortgage loans were decidedly safer than bonds, in general, because interest payments were well kept up, principal values did not drop precipitately as the mortgages were not quoted, and the volume of foreclosures was almost negligible. Foreclosed real estate never reached 1 per cent of the total assets of the banks until well into the recent depression. As a result of this experience, the savings banks again began to meet the depression by shifting funds into mortgage loans, by refraining from purchasing bonds and lending most of the new deposits on real estate security. Mortgage loans of New York State savings banks totaled a little over three billion dollars in 1929, when they were about 62 per cent of the total assets, and increased to over three and a half billion dollars in 1932. By that date the seriousness of the mortgage situation became apparent and the volume of mortgages declined to three billion dollars in 1936 and continued to decline through 1937 and into 1938. Since 1936 mortgages have been less than 50 per cent of the total assets.[2]

This decline in the amount and proportion of assets invested in real estate loans is the result of two factors, the absence of much new lending, and foreclosures. The absence of new lending resulted from a lack of desirable loans and from the inability of the savings banks to dominate the mortgage market as in the past. The growth of federal savings and loan institutions with more liberal lending powers than the savings banks had made it difficult for the savings banks to find the kind of loans they would have liked to make. Carrying an increasing load of foreclosed real estate, the savings banks did not wish to make loans except upon conservative appraisals and with amortization provisions. They also preferred not to make loans rather than lend on as small equities as the savings and loan associations were doing. In addition to this, the savings banks were limited by the investment law from lending more than 60 per cent of the appraised value of property.[3]

Foreclosed property amounted to only a few thousand dollars

[2] From *Annual Reports* of New York State Superintendent of Banks, Part One, 1929–1937.

[3] This restriction was raised to 66.6 per cent in 1938.

for the banks in the state in 1929. It mounted rapidly until 1937, when it reached a total of almost $400,000,000. At that time it amounted to over 6 per cent of the total assets. During 1937 the amount and percentage remained virtually stable.[4] Obviously foreclosures would not have been onerous to the banks if it had been possible to sell the property rapidly for prices that would cover the mortgages involved and the legal costs of foreclosure. Until very recently real estate sales lagged far behind current foreclosures, so that the total amount of foreclosed real estate kept

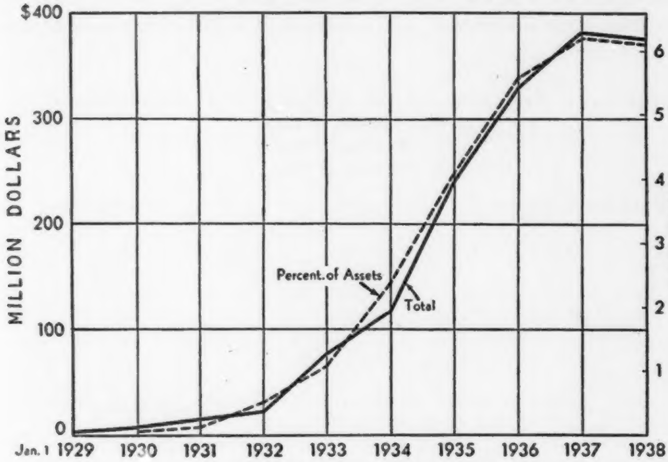

Chart I. Foreclosed Real Estate
Source of data: Annual Reports of Superintendent of Banks, 1929–1937

rising. This real estate constituted a financial burden on the banks for several reasons. First, the banks became liable for the taxes on the properties, and frequently these were in arrears (sometimes the cause of the foreclosure). Secondly, the properties were frequently in poor repair, and, if income-producing property, far from fully tenanted. The condition of the real estate made it impossible to sell without first rehabilitating large parts of it. Finally, the banks' funds were tied up for indefinite periods and

[4] *Annual Reports* of Superintendent of Banks, Part One, 1937.

these funds were not earning a return, as they had when the mortgages had been in good condition.

The mortgage situation seems to have reached its worst stage in 1934. At that time roughly 44 per cent of the mortgages of a representative group of banks were in arrears. By 1937 this figure had dropped to 25 per cent.[5] In spite of the desire to remedy the mortgage situation, however, the banks were unable to reduce rapidly the volume of mortgages outstanding. This was true because the mortgages could not be got rid of except through payment of the debt or through foreclosure, and very few mortgages at that time were amortized. In addition, a legislative moratorium

TABLE I

Amount of New Loans and Amounts Paid in or Foreclosed During July–January Periods*

Sample Group of Banks

(In thousands of dollars)

SIX MONTHS ENDING JANUARY 1	NEW MORTGAGES	PAID IN OR FORECLOSED
1929	$56,564	$17,106
1930	44,162	17,739
1931	60,172	29,376
1932	61,081	23,392
1933	28,763	19,627
1934	10,404	22,616
1935	10,105	30,692
1936	7,522	29,557
1937	8,128	25,257

*Source: Reports from banks to State Banking Department.

made it impossible to foreclose (with some exceptions) for delinquencies on account of principal. If the interest on a loan was paid up, the property was immune from foreclosure. The figures in the following table illustrate the difficulty involved in attempting a rapid decrease in the mortgage account, as well as the tendencies described above. The figures are for the July–January periods in the respective years.

An interesting aspect of this situation was that in selling foreclosed properties the banks had to accept mortgages on them from

[5] Calculated from reports from the banks to the State Banking Department. The sample included one-third of the total resources of all the banks.

the new purchasers. These loans are known as purchase money mortgages and in recent years have constituted most of the new mortgage loans by the banks. Inasmuch as these loans are based on the appraisals of the properties made during a period of liquidation, they are considered sounder and safer than the original loans which led to the foreclosures. Assuming that the original mortgage was for 60 per cent of the appraisal and that the foreclosed property was sold for the face value of the mortgage, the new mortgage, at 60 per cent, would equal only 36 per cent of the original appraisal.

II

The second tendency noted in savings bank investment policy is the shift from some categories of bonds into others. Savings banks operate in their respective states under rigid investment laws except in Maryland and Delaware, where the banks are not restricted by law but by their state banking departments. In New York State the principal types of bonds legal for investment are those of the federal, state and municipal governments, and railroads and public utilities. Each of these, except federal obligations, is further hedged about with restrictions.

Probably the most notable shift in bond investments is a great increase in holdings of federal obligations. These holdings had increased from a negligible quantity to over 16 per cent of total resources during and immediately after the World War. The holdings declined almost as rapidly during the nineteen-twenties to less than 5 per cent in 1930. Then began another rapid rise until the proportion passed 20 per cent in 1937. During the period between 1920 and 1930 the sales of government bonds had provided profitable opportunities for shifting into state and railroad bonds of comparable prices but higher yields. Some of these securities, however, suffered considerably during the depression and led to losses when finally disposed of.

The trend of the holdings of railroad bonds, municipal bonds and public utility bonds has been downward during recent years. In the past, municipal and railroad bonds were the mainstays of the bond account, each representing over 15 per cent of the total assets in 1915. Railroad securities declined in relation to other

types of bonds during the war, but remained steady in proportion to other assets during the 'twenties. The trend of municipal bond holdings has been downward for two decades, because the savings banks have got no benefit from the tax exemption features of these securities, and hence have traded them off to others who want them for those features. The holdings of public utility bonds have never been large because the banks were given permission to purchase them only as late as 1928, and then only if half of their assets were in mortgage loans. Utility bonds represented about 4 per

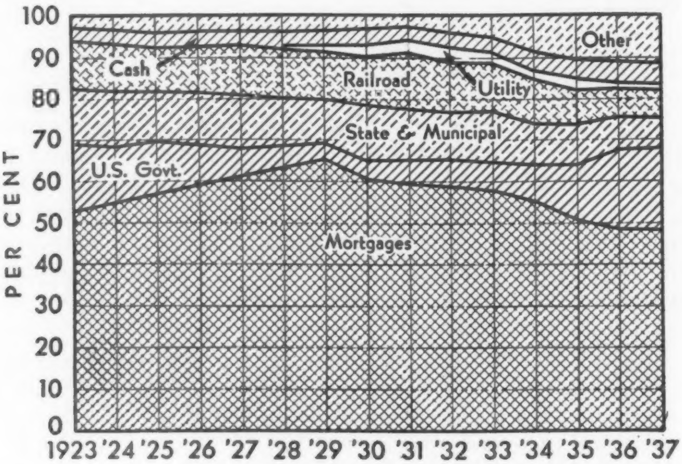

CHART II. ASSETS AS PER CENT OF TOTAL NEW YORK STATE SAVINGS BANKS, DECEMBER 31, 1923, TO DECEMBER 31, 1937

Source of data: Annual Reports of Superintendent of Banks, 1923–1937

cent of the total assets in 1931, but redemptions and sales of inferior securities and particularly the growth of federal bond holdings, have decreased this figure to about 2 per cent.[6]

III

This type of shift in the bond account is intimately connected with the shifts from lower to higher grade securities. Since the

[6] *Annual Reports*, Superintendent of Banks, Part One, 1915–1937.

demoralized bond markets of 1932 and 1933, the savings bankers have endeavored strenuously to "clean house," meaning to discard low-grade securities and obtain better ones. Of course, the banking law itself was designed to insure that only "safe" securities would be purchased, but the experience of recent years is adequate commentary on the futility of attempting to reach this goal, and still permit any flexibility in investment policy, by statutory control.[7] Strangely enough, the inflated bond markets of 1935 and 1936 permitted the banks in many instances to exchange bonds they did not want for more desirable ones with little or no loss of yield. In many instances bonds were sold at prices

TABLE II

PRICES OF SELECTED BONDS AT DIFFERENT DATES*

BOND	JUNE 1, 1927	DEC. 31, 1932	MARCH 1, 1936	INCREASE, 1927–36
U. S. Treasury 4¼'s, 1952–47	114	110	117	3
New York State 4¼'s, 1965	102	112	127	25
Michigan State 4½'s, 1944	102	101	117	15
California 4½'s, 1944	105	107	113	8
New York City 4½'s, 1960	103	90½	116	13
Atch., Top. & Sante Fe Gen. 4's	97	94	114	17
Penna. R.R. cons. 4½'s, 1960	103	99	120	17
Lake Shore & M.S. 3½'s, 1997	83	76	103	20
New York Central 3½'s, 1997	84	75	101	17

*Figures supplied by Onondaga County Savings Bank.

above their cost to the banks. Table II illustrates the differences in the price changes of different securities, and how bonds purchased before 1930 could be sold profitably and the proceeds invested in government bonds.

A comparison of the yields of several representative New York State municipal bonds has indicated that the yield on comparable United States Government obligations was higher in the majority of instances.[8] There have been some spectacular opportunities for the banks to sell securities that they wished to get rid of in

[7] See William R. White and Irving A. J. Lawres, "The Modernization of Legal Lists," *Law and Contemporary Problems*, Summer issue, 1938, pp. 386–98.

[8] In *Savings Banking in New York State*, Chapter VIII.

exchange for government bonds. Great Northern 5½'s sold for 38 and Pere Marquette 5's sold for 34 in 1932, while their prices reached 109 and 98 respectively in 1935. In 1935 the securities considered to be of unsatisfactory quality were estimated to be about 15 per cent of the total bond holdings, and there followed large sales of the obligations of hard-hit railroads and municipalities. In some instances the incomes of the banks were reduced by shifts from these to government obligations, but frequently this was offset to some extent by profits on the sales.

A particularly vexatious part of the bond problem during these years has been the railroad bonds. Twenty-five years ago these securities were the most important of all savings-bank investments in bonds. One of the requirements for eligibility for investment was that the railroad had earned its fixed charges at least one and a half times in five of the preceding six years, including the immediately preceding year. After 1929 many railroad bonds dropped from the legal list as a result of failure to meet this requirement, and the banks held large quantities of non-legal securities. To meet this situation the legislature lifted this particular requirement, beginning in 1932, as a temporary expedient, but found it necessary to repeat it each year. Consequently these bonds remained on the legal list, but even then many more were taken off because of failure to meet other requirements. In 1935 the banks owned only $56,600,000 of railroad securities that met the old requirements, $426,800,000 that were legal under the moratorium, and $138,300,000 that had ceased to be legal.[9] The banks were expected to sell these non-legal securities as soon as practicable.

It might be asked why the banks picked out government securities as substitutes for the securities they were exchanging. In fact, some did object to the "lack of diversification" that the situation seemed to be fostering, but the officers of the leading banks felt that with a portfolio full of government bonds diversification of risk was not necessary. As one banker expressed it to the writer, "Government bonds are the one type of bonds that are sure to be paid, because the government is the only agency that can manufacture the dollars with which to pay them."

[9] From State Banking Department.

IV

A final consideration is the change in the maturity dates of the bonds held. It was once the practice of savings bankers, around 1900, to buy as long maturities as possible, under the impression that the interest rate was going to fall continuously. In that way they hoped to protect their depositors from a lower return and at the same time own bonds that would be sure to appreciate. As a matter of fact, the next period of rising interest rates led to losses on the prinicpal of those securities, and was one factor in leading the savings banks to place more and more of their funds in mortgage loans. During the depression after 1929 it was natural for the banks to shift into shorter maturities. This was done in

TABLE III

Maturities by Par Values, Sample Group of Banks, 1934–1937*

Year (January 1)	Percentage Maturing in		
	Less Than One Year	Less Than Ten Years	Over Ten Years
1934	0.80	18.73	81.27
1935	1.81	33.19	66.81
1936	1.50	38.32	61.68
1937	1.03	39.86	60.14

*From Reports of Banks to State Banking Department.

the earlier years for reasons of liquidity, but later for fear a period of rising interest rates was imminent. As illustrated in Table III the proportion of bonds maturing in one year was increased, although this tendency seems to have been checked in 1935. The percentage of bonds maturing in less than ten years was more than doubled between 1934 and 1937.

A large part of these shifts was brought about by heavy purchases of short-term government obligations in 1934, many of which were not replaced as they matured. There were also purchases of short-term state securities in 1934 and 1935. At the same time that long-term railroad securities were being sold in large blocks, some short-term railroad obligations were purchased. In more recent years there has been more purchasing of long-term bonds, but with the expectation that they would not be held long.

In connection with this aspect of savings bank bond policy, a recent willingness on the part of the banks to buy and sell different obligations of the same issuer in order to take advantage of discrepancies in market quotations should be mentioned. Traditional savings bank investment policy may be summarized as "buy and hold," and it was frequently the intention of a purchasing bank to hold a security until it matured. Recently some of the banks have set up small funds that have been used to invest in securities which are to be sold when other similar ones may be purchased at increased yields. This arbitrage process is usually carried on in government bonds, partly because it is felt that no one can consider it as speculation in that case. For example, an attempt is made to discover the usual relationship between the prices of bonds of different maturities. When these prices get temporarily out of line the overpriced issue is sold and the underpriced one purchased.

The effect of recent developments on savings bank investment policy may be summarized by saying that the unfortunate experiences with mortgage loans and the growth of new mortgage lending agencies have turned the banks to more active interest in bond investments. As a result of the decline in the financial position of some municipalities and railroads and the state of the bond market in recent years, the bankers have invested heavily in government bonds at the expense of other categories. At the same time they have shortened the average maturity date of their holdings, and found it profitable to be on the alert for opportunities to trade bonds in order to take advantage of temporary market discrepancies.

DYNAMIC THEORY OF WAGES

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I

Let $Z(t)$ represent the total rate of sale of goods[1] and personal services by all traders at the moment t, while $\theta(t)$ is the cost[2] of producing these goods and services,[3] and $I(t)$ is the instantaneous rate of net income, or profit, earned on all goods and services being sold at the given moment. Then as a matter of definition,

$$Z(t) = \theta(t) + I(t). \tag{1}$$

In other words the total rate of sales equals total rate of expense plus profit. The cost of production, or expenses, may be split into two parts, viz., labor expense and non-labor expense, say $\zeta(t)$ and $\eta(t)$ respectively; so that (1) becomes

$$Z(t) = \zeta(t) + \eta(t) + I(t). \tag{2}$$

The non-labor expense is chiefly for goods consumed in the productive process, including depreciation on fixed assets. Disregarding taxes and the items excluded by footnote (2) above practically all the non-labor expense is for goods; so for simplicity let it be designated as "goods expense."

Now, the labor expense at time t is not, in general, the same as the current rate of wages being paid at that time, and the goods

[1] In this paper the term, "good", is so conceived as to exclude mere evidences of property rights, such as stocks, bonds, etc.

[2] Interest on owners' capital is excluded from the conception of cost used in this article. Contractual interest paid on borrowed capital is also excluded from cost because contractual interest received is excluded from the total rate of sales, $Z(t)$. For society as a whole the last two items cancel out in the reckoning of profit and may therefore be ignored. Interest on owners' capital is included in the term, "profit."

[3] Personal services have a cost of production, including the food, housing, medical attention, amusement, etc. necessary to permit the wage earner to live and function efficiently in his work.

expense is not equal to the current rate of purchase of goods. In other words, expenses do not in general equal purchases. In fact they can only be equal for society as a whole in case profits on the whole are equal to zero.

But the total rate of sale of goods and services by all traders at any given time is always equal to the total rate of purchases. A purchase of labor by A is a sale of services by B, and a sale of goods by C is a purchase by D, and so on. Algebraically stated this reduces to the formula

$$Z(t) = W(t) + S(t). \tag{3}$$

where $W(t)$ is the rate of purchase of labor services (or total wages being paid, since labor purchases are usually paid for in cash) and $S(t)$ is the rate of purchase of things-other-than-labor, or, for convenience, the rate of purchase of goods.

It is obvious from an inspection of formulas (2) and (3) that the total rate of expense of all traders at a given time can equal their total rate of purchase of goods and services only when $I(t) = 0$. It should be equally obvious that in *any* case the *current* rate of purchase of goods and services at any time includes the profit being earned on all goods currently being sold because,

$$Z(t) = W(t) + S(t) = \zeta(t) + \eta(t) + I(t). \tag{4}$$

Therefore, when the total rate of sale of goods and services is broken down into *current* wages paid and *current* purchases of goods no term need be added to take care of profit because the profit is already subsumed exactly in the other two terms.

Let P_0 be the money value of the rate of sale of some given goods by all producers at a given time while W_0 is the *current* value of personal services used to produce this goods and P_1 is the *current* value of other goods being purchased to produce the stream of finished goods selling for P_0.
Then

$$P_0 = W_0 + P_1 + d_0. \tag{5}$$

The term d_0 represents the excess or deficit of rate of sale of finished product over the current value of the goods and services being bought to maintain the stream of product selling for P_0.

W_0 and P_1 are not rates of expense but current rates of purchase. The subscript, 1, is placed on the second P in formula (5) to indicate that this amount of money is being paid for a stream of goods at a stage of the industrial organization one step removed from that at which the price P_0 is being paid.

The stream of goods priced by P_1 are themselves the product of labor and still other goods purchased at a stage of the productive process removed once again from that of the "original" stage where the goods priced by P_0 were sold. Hence the value of P_1 may be stated by the following:

$$P_1 = W_1 + P_2 + d_1, \tag{6}$$

where the significance of the terms should be obvious from the analogous terms in (5). Likewise, one may write,

$$P_2 = W_2 + P_3 + d_2, \tag{7}$$

and so on. Thus the value of goods employed at stage zero may be "cross-cracked," so to speak, into labor values and goods values through an indefinite number of stages of production, or until practically their entire value is stated in terms of wages only. The process may be repeated until the value unaccounted for by wages, say P_{r+1}, becomes practically zero. By substituting formula (7) in (6) and (6) in (5), etc., the following result is obtained:

$$\left.\begin{array}{llllllllll}
P_0 = & W_0 + & W_1 + & W_2 + \cdots + & W_r + & d_0 + & d_1 + & d_2 + \cdots + & d_r \\
P_1 = & & W_1 + & W_2 + \cdots + & W_r & + & d_1 + & d_2 + \cdots + & d_r \\
P_2 = & & & W_2 + \cdots + & W_r & & + & d_2 + \cdots + & d_r \\
\cdot & & & & & & & & \\
\cdot & & & & & & & & \\
\cdot & & & & & & & & \\
P_r = & & & & W_r & & & + & d_r
\end{array}\right\} \tag{8}$$

Thus the wage payment, W_r, appears many times in the guise of a commodity, so to speak, while the wage payment, W_1, appears twice in the exchange process in the guise of a commodity, being a part of the value of commodity 1 and indirectly a part of the value of commodity *o*.

Let $X = 0, 1, 2, \ldots r$ represent the subscripts of P, W and d.

Then in the case where $P_{r+1} = 0$, as in formula (8), it can be shown that

$$\sum_{z=0}^{r} P_z = \sum_{z=0}^{r} (X + 1)W_z + \sum_{z=0}^{r} (X + 1)\, d_z \tag{9}$$

$$= \sum_{z=0}^{r} XW_z + \sum_{z=0}^{r} W_z + \sum_{z=0}^{r} Xd_z + \sum_{z=0}^{r} d_z\,. \tag{10}$$

Other series of prices may be generated starting with other products as the zero stage of production, whose prices might be labeled P_0', P_0'', etc. For each of these series a formula like (9) will obtain, which expresses each as a weighted sum of wage rates and of differences, d_z. The sum of all the series combined will equal the total rate of sale of goods and services of all traders provided duplications are avoided in generating the series. That this last may be true there is no necessity for defining what is meant by a "zero" stage of production, and no need to develop romantic distinctions between "capital goods" and "finished goods." The "zero" stage is just wherever one chooses to make a beginning. The only requirement is that whenever a series should happen to "collide" with one already developed and included in the grand total the anterior and posterior portions should all be treated as a single series, and the posterior part should not be counted again.

This process of generating series and summing them may be continued until every price being paid for goods and personal services at a given time has been counted, and counted only once on the left hand side of the equations. At this point it must follow that $\Sigma d_z = 0$, because at this point the sum of all the individual equations like (6) and (7) is given by the expression:

$$\sum_{i=0}^{n} P_i = \sum_{i=0}^{m} W_i + \sum_{i=m}^{n} P_i + \sum_{i=0}^{n} d_i\,, \tag{11}$$

where m is the number of wage rates being paid and n is the total number of transactions of all kinds. The sum on the left of formula (11) is therefore the total rate of sale of all goods and personal services at the given time, and is equivalent to $Z(t)$ in formula (3). Also, $\sum_{i=0}^{m} W_i$ is equivalent to $W(t)$ and $\sum_{i=m}^{n} P_i$ on the right is equivalent to $S(t)$ in the notation of formula (4).

Let $\sum_{i=0}^{n} d_i$ be written as $\Delta(t)$ in similar notation. Then equation (11) becomes,

$$Z(t) = W(t) + S(t) + \Delta(t). \tag{12}$$

Comparison with equation (3) above shows that $\Delta(t) = 0$.

Since there is presumably no correlation between X and d_z, and since the mean value of d_z is zero, it can be shown that $\Sigma X d_z = 0$.[4] Hence equation (10) reduces to—

$$\Sigma P_z = \Sigma X W_z + \Sigma W_z; \tag{13}$$

when the summation sign is understood to stand for a double summation, once with respect to X, for each generative series like formula (8), and once again with respect to each of the sums thus obtained from all the initial points of departure. The two sums on the right both converge, hence the sum of the prices P_z will be a definite, manageable quantity even when r is a very large number.[5]

Formula (13) expresses the total rate of sale of all goods and services in a closed economy as a function of the total wages and the "stages" of production. The formula may be revised to read

$$\Sigma P_z = \left[\frac{\Sigma X W_z}{\Sigma W_z}\right] \Sigma W_z + \Sigma W_z. \tag{14}$$

To find the value of all goods traded exclusive of labor, ΣW_z must be subtracted from ΣP_z, which yields the result:

$$\Sigma P_z - \Sigma W_z = \left[\frac{\Sigma X W_z}{\Sigma W_z}\right] \Sigma W_z. \tag{15}$$

Thus the total rate of sale of goods only is equal to a certain coefficient times the total rate of wages. Let this coefficient be designated by the letter μ, and let $\Sigma W = \phi$, while the rate of sale of goods only is represented by S. Then (15) becomes

$$S = \phi\mu. \tag{16}$$

[4] Proof: Let $e_z = X - \bar{X}$, where $\bar{X}$ is the mean of X. Then $\Sigma X d_z = \Sigma(e_x + \bar{X})d_x = \Sigma e_x d_x + \bar{X}\Sigma e_x$. If the correlation between X and d_z is zero then $\Sigma e_x d_x = 0$; and $\Sigma X d_x = 0$.

[5] The convergence is indicated by the fact that while W_z may increase spasmodically, the general drift must be in the direction of zero, as the original P_0 is split repeatedly into two parts.

II

In a complex industrial organization like that of a great modern nation the coefficient μ must be virtually constant with respect to time. It is seen to be a weighted average of the number of times a bundle of labor now being sold in the form of goods has changed hands since the labor service was paid for. It should be noted that while the total wage enters into the formula for μ, the value of μ depends upon the *relative distribution* of wages in thousands of patterns of productive concatenation and not at all upon the total wages paid. Any one of these patterns is subject to change, but in general the changes must be of a more or less random character, disregarding dislocations due to the business cycle. Perhaps there might be some faintly perceptible drift in the value of μ over a very long period of years. In a certain sense it is a coefficient of industrial complexity, and might be considerably different in one century compared with a couple of centuries earlier or later. But for all practical purposes the *normal* value of μ may be determined statistically and thereafter treated as a constant. Such being the case a law of *normal* wages is given by rearranging formula (16), viz.

$$\varphi = \frac{S}{\mu} \tag{17}$$

Thus the normal wages earned in a given society may be determined by dividing the normal value of the total sales of goods by a constant.

This law of wages may be put in a somewhat different form by adding ϕ to both sides of formula (16), so that

$$S + \phi = \phi\mu + \phi, \tag{18}$$

and

$$\phi = \frac{S + \phi}{\mu + 1} = \frac{Z}{\mu + 1} \tag{19}$$

The expression $S + \phi$ gives the value of goods *and* labor services being sold in the whole society, for which the symbol Z is used in this paper. The normal value of total sales of goods and services is, moreover, equal to the normal quantity of money (including bank deposits) in circulation multiplied by its normal

rate of turnover. Hence, where M represents the quantity of money and V its normal rate of turnover, formula (19) becomes,

$$\phi = \frac{MV}{\mu + 1}. \tag{20}$$

In other words the normal wages bill may be predicted—once μ has been measured for the given country—by estimating the amount of money expected to be in circulation at a given date in the future and its normal rate of turnover. More simply stated, the normal wages bill is expressed as a function of two variables and a constant by formula (20), of which three terms, the constant and one variable, M, may be measured with high accuracy. Statistical values for V of high precision are not yet obtainable, but will no doubt become available in the near future.

Another expression for Z, the total rate of sale of goods and services is given by the formula,

$$Z = YR, \tag{21}$$

where Y is the *market* value of all wealth and R is its average rate of turnover. From this formula it is possible to develop the relationship existing between wages on the one hand and saving and investment on the other.

The rate of investment is best conceived as the rate of purchase of *new* wealth, for reasons explained by this writer in another paper.[6] A mathematical expression for the rate of investment is therefore given in terms of Y and R by the expression,

$$\gamma = Y'R, \tag{22}$$

where γ is the rate of investment and Y' is the rate of change of the value of total wealth. When wealth is increasing Y' represents the rate of creation of new wealth and this multiplied by R, the rate at which the wealth is changing hands, gives the rate at which new wealth is being bought (and sold).

The writer has also shown in the previous paper just mentioned that a most useful conception of the rate of saving by society as a whole is mathematically stated by the formula

$$\sigma = -R'Y, \tag{23}$$

[6] See "Dynamic Theory of Saving and Investment", *The Southern Economic Journal*, July, 1938, p. 27.

where σ is the rate of saving and R' is the rate of change of the average rate of turnover of all wealth. So conceived a positive saving occurs whenever the average rate of turnover of all wealth is decreased, i.e., whenever the average *period* of turnover is lengthened. The change in rate of turnover multiplied by the value of wealth affected and reversed in sign therefore gives the rate of saving.

When saving and investment are conceived as just stated the rate of change in the total value of goods and services being sold is given exactly by the difference between investment and saving. In the language of symbols, if Z'[7] states the rate of change in the rate of sales of goods and services, then

$$Z' = \gamma - \sigma. \tag{24}$$

But differentiation of formula (19) shows that

$$\phi' = \frac{Z'}{\mu + 1}, \tag{25}$$

where ϕ' is the rate of change in total wages. Hence

$$\phi' = \frac{\gamma - \sigma}{\mu + 1}. \tag{26}$$

In other words, *the rate of change of normal wages is equal to the normal difference between investment and saving divided by a constant* $\mu + 1$.

The quotient of the coefficients μ and R may be regarded as a *coefficient of capitalisticity* of production, since it gives the average length of time since the labor utility embodied in goods now being sold was "created" by workers. That is to say, the quotient, μ/R, is very nearly the same, if not quite the same, as the Austrian "period of production," the only difference being that the latter requires the arbitrary designation of certain particular operations as the "final" stage of production, whereas the former does not. The coefficient of capitalisticity, like the Austrian period of production, measures the "roundaboutness" of production. But the *relative variation* of the *trend* in "roundaboutness"

[7] Formula (24) is exactly true for *actual* as well as normal values of saving, investment, and acceleration of business, but for the purposes of this paper the terms must be thought of as normal values only.

is given just as well by $1/R$ alone as by the quotient, μ/R, because the normal value of μ is a constant.

The average wage per person will depend upon the total wages and whatever divisor one may select. Dividing total wages by the number seeking employment will of course give a lower average wage than dividing by the number employed. Let N represent the divisor selected to compute the average wage, and let ψ be the average money wage, so that

$$\psi = \frac{\phi}{N}. \tag{27}$$

Let $P_{t/0}$ be an index of the cost of living at the time t on time 0 as a base. Then an *index* of normal real wages per person will be given by the formula,

$$\frac{\psi_{t/0}}{P_{t/0}} = \frac{\phi_{t/0}}{N_{t/0}P_{t/0}}, \tag{28}$$

where $\psi_{t/0} = \psi(t)/\psi(0)$; $\phi_{t/0} = \phi(t)/\phi(0)$, and $N_{t/0} = N(t)/N(0)$. Substituting (19) in (28), and writing $Z_{t/0} = Z(t)/Z(0)$ yields,

$$\frac{\psi_{t/0}}{P_{t/0}} = \frac{Z_{t/0}}{N_{t/0}P_{t/0}}. \tag{29}$$

The constant, $(\mu + 1)$, disappears from the *index* of money wages and therefore from the *index* of real wages. In a certain sense the quotient of $Z_{t/0}$ divided by $P_t/_0$ may be considered an index of the "real" volume of production because it expresses the worth of the total product in terms of how many so-called "consumers goods" the money values would buy from time to time. Let $X_{i/0}$ represent this "real" volume of production, while $U_{i/0}$ is the normal "real" wage per person. Then formula (29) reduces to

$$U_{t/0} = \frac{X_{i/0}}{N_{t/0}}, \tag{30}$$

which states the common sense conclusion that normal real wages per person can only be increased by increasing "real" production faster than the number of laborers. The term $U_{i/0}$ yields the same index of relative wages that would be obtained by the marginal productivity theory of wages.[8]

[8] The truth of this statement has been shown by the writer in his *Dynamic Theory of Wealth Distribution*, p. 150.

III

Statistical verification of the foregoing wages theory depends upon whether it can be established that the normal value of the coefficient, μ, is virtually constant in point of fact, as predicated by the theory. This coefficient is ***not by definition*** the ratio that the normal rate of sale of goods bears to normal wages. By definition it is a weighted average of the number of times an element of labor service has changed hands before being incorporated in the goods now being sold, i.e., it is a measure of industrial complexity. It has been shown that the coefficient thus defined must as a matter of mathematical logic be equal to the ratio of sales of goods only to wages. It was then assumed that the normal value of the coefficient must be sensibly constant over time because there is no good reason why the normal complexity of industrial processes should change except very slowly. If this assumption is valid then all the rest of the theory of wages above stated must be correct as a matter of inexorable logic. The validity of the assumption may be tested by comparing normal sales of goods and services with normal wages over a period of years and noting whether this ratio is subject to any considerable variation, for the coefficient μ must be equal to this ratio regardless of whether it is constant or not.

To obtain normal sales and normal wages from the actual data some statistical adjustments must be made of a more or less arbitrary nature. One might fit some kind of curve to the data, such as a saturation curve, or a parabola of some sort, by the method of least squares, and designate the points on the curve as normal values. An easier method, and one about as sound in its logic, is to take a moving average of the actual data over a period of years and consider the values thus obtained as normal values. This is the method the writer has elected to utilize.

Table 1 shows in the second column estimated values of the normal rate of sale of goods *and* labor services in the United States for the years 1919–1931 inclusive. These figures are ten-year moving averages, centered on the end of the period, of the actual data as tabulated by Mr. R. R. Doane.[9] The third column shows

[9] See *The Measurement of American Wealth*, pp. 90–91. Mr. Doane's series is labeled "total payments for goods and services", but normal payments of course equal normal sales.

normal wages and salaries as estimated by an identical method, from raw data also tabulated by Mr. Doane. The next column gives the quotients of sales divided by wages and salaries, which are estimated normal values for $(\mu + 1)$. The last column gives rounded off values for μ.

The values of μ are reasonably constant, excepting the year 1919. The value for a bad year like 1931 is very close indeed to the value for a reasonably good year like 1922. The value for another bad year like 1930 is also very close to the value for a good year like 1923. Over the whole period there is a faintly perceptible tendency for μ to decline but it is too slight to be significant. This is shown by the fact that the average value of $\mu + 1$ for the three years 1928–30 is 6.64, while the average value for the three years 1922–24 is 6.78, a difference of only 2 per cent over the six-year interval. Even if this slight drift were statistically significant it would only be one-third of 1 per cent per year.

TABLE 1

COMPUTATION OF μ

YEAR	ESTIMATED NORMAL VALUE OF TOTAL SALES OF GOODS AND SERVICES IN THE UNITED STATES (MILLIONS OF DOLLARS)	ESTIMATED NORMAL VALUE OF TOTAL WAGES AND SALARIES IN THE UNITED STATES (MILLIONS OF DOLLARS)	ESTIMATED VALUE OF $\mu + 1$	ESTIMATED VALUE OF μ. (ROUNDED OFF)
1919	163,029	22,330	7.30	6.3
1920	180,177	25,371	7.10	6.1
1921	190,754	27,532	6.95	6.0
1922	203,306	29,758	6.83	5.8
1923	219,562	32,196	6.82	5.8
1924	235,817	34,831	6.77	5.8
1925	254,110	37,619	6.75	5.8
1926	270,836	40,360	6.71	5.7
1927	285,156	42,709	6.68	5.7
1928	297,423	44,846	6.63	5.6
1929	308,680	46,637	6.61	5.6
1930	310,853	45,975	6.76	5.8
1931	312,997	45,367	6.90	5.9

The year 1919 is plainly out of line a little and this is most probably due to the fact that taking a ten-year moving average does not remove *all* of the cyclical and irregular fluctuation from a series by any means. When a highly irregular year is encountered it may throw an irregularity into the moving average. For

this reason it is impossible to derive even an approximate trend value by the method of ten-year averages for such a dreadful year as 1932.

The margin of error involved in tabulating the original series for sales and wages over the entire business community of the United States is considerable. This suggests that better results might be obtained over a more limited field where the tabulating job is more manageable.

For any cross section of industry the ratio of normal sales to normal wages will give what might be called a *truncated* value for the coefficient, μ, which might be designated as $\pi\mu$, where $\pi < 1.00$. Measuring this ratio in such a limited field is equivalent to starting a series like that of formula (8) above and stopping short before the value of goods undistributed into wages becomes negligible. This truncation will affect both the numerator and denominator of the coefficient μ, but it will not affect them equally; so the resulting coefficient will be different. The numerator series, ΣXW will in general converge less rapidly than the denominator series, ΣW; hence cutting a series down in length will reduce the value of the ratio, $\Sigma XW/\Sigma W$. The ratio, $\pi\mu$, which is computed from truncated series in a cross section of industry will therefore be smaller than the ratio, μ, which covers the whole field of industrial society. But the coefficient, $\pi\mu$, should be about as stable as the coefficient μ, provided the cross section of industry pertaining to the former is of sufficient extent to permit the law of statistical regularity to operate.

A section of such extent is found in the case of manufacturing industry in the United States, and it is a field for which fairly accurate data on sales of product and compensation of employees may be obtained in census years, i.e., in every other year since 1919. Data may also be obtained for occasional years at earlier dates.

Utilizing census data and a ten-year moving average method of removing cyclical fluctuation, the normal value of the product of manufacturing industry and the normal value of wages and salaries paid by that industry may be obtained. These values are shown in Table 2. The quotients of one series divided by the other are the normal values of $\pi\mu$, which may be seen in the

fourth column. The year 1919 is again out of line, as it was found to be in Table 1. But the values hover pretty close to 4.5 with the exception of that year. The slight variation is probably due to cyclical dislocations not eliminated by the moving average method.

To cite a few very close agreements: the bad year 1921 rounds off to the same value as the good years 1923 and 1929. The years 1933, 1935 and 1925 all round off to identical values. And excepting 1919 the entire range of rounded off values lies within 4.4 and 4.6. There is no appreciable drift in the data over the whole

TABLE 2*

COMPUTATION OF $\pi\mu$

YEAR	NORMAL ESTIMATED VALUE OF PRODUCT OF MANUFACTURING IN UNITED STATES (MILLIONS OF DOLLARS)	NORMAL ESTIMATED VALUE OF WAGES AND SALARIES PAID IN MANUFACTURING INDUSTRY IN UNITED STATES (MILLIONS OF DOLLARS)	ESTIMATED VALUE OF $\pi\mu$	ROUNDED OFF VALUES OF $\pi\mu$
1914	19,904	4,291	4.64	4.6
1919	36,112	7,719	4.68	4.7
1921	43,772	9,851	4.44	4.4
1923	55,867	12,667	4.41	4.4
1925	57,567	12,913	4.58	4.6
1927	58,597	13,146	4.46	4.5
1929	60,106	13,498	4.45	4.4
1931	59,581	13,261	4.49	4.5
1933	53,748	11,822	4.55	4.6
1935	50,367	11,059	4.55	4.6

* Source: *Statistical Abstract of the United States.*

period. The slightly superior constancy of $\pi\mu$ as compared with μ is probably due to the fact that more accurate statistical tabulation is possible for manufacturing industry alone than for the whole field of business activity.

The constancy of $\pi\mu$ argues strongly the constancy of μ, and may be regarded as very strong evidence in support of the wages theory herein propounded. The constancy of μ would presumably exist under perfect competition, or "monopolistic competition," or state control of industry, because the value of μ is a function of the complexity of the whole industrial organization, and that cannot be changed in a hurry.

THE NATIONAL LABOR RELATIONS BOARD

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There should be no doubt that the National Labor Relations Act purposes to establish a civil right. This fact cannot be diverted by those words about the declared policy of government to remove the cause of obstruction to the free flow of commerce. There is no ambiguity in Section 7 that recognizes labor's right to organize and to bargain collectively through representatives of their own choosing, and in Section 8 that describes certain employer practices which interfere with Section 7 to be unfair and illegal.

For enforcing this Congressional labor policy the organic act creates the National Labor Relations Board, and outlines its powers and procedure. During the first three years of its life the board encountered as bitter opposition as ever confronted a government agency. Before the board had hardly started its work the National Association of Manufacturers had released floods of hostile propaganda, and the American Liberty League's formidable group of lawyers had declared the act unconstitutional in a document which signalled the beginning of injunction suits in different parts of the country.[1] But for one reason or another, the board has won a series of victories in the Court.[2] Constitutionally its work has been vindicated. It continues to enforce the National Labor Relations Act, and in doing so to build up principles of administrative law on labor relations.

I

The three member National Labor Relations Board constitutes a labor court established to enforce a law. It is analogous to the

[1] First Annual Report NLRB, pp. 47, 48, 67 (1936).

[2] *Cf.* Summary of Litigation, NLRB press release, June 14, 1938. For further comments on NLRB cases, see part 3 of this paper.

National Railway Adjustment Board, and not to the National Mediation Board or to the Conciliation Service of the Department of Labor. President Roosevelt has stated this fact clearly:

"The National Labor Relations Board will be an independent quasi-judicial body. It should be clearly understood that it will not act as mediator or conciliator in labor disputes. The function of mediation remains, under this Act, the duty of the Secretary of Labor and of the Conciliation Service of the Department of Labor. It is important that the judicial function and the mediation function should not be confused. Compromise, the essence of mediation, has no place in the interpretation and enforcement of the law."[3]

The judicial nature of the board's work would therefore justify giving it a reasonable degree of independence of political control. This is the aim of the clause which states so emphatically that the President may remove a member only after notice of hearing has been given, and for no other cause except neglect of duty and malfeasance in office. This evidently means that members of the board cannot be removed when their policy of labor relations conflicts with that of the President.[4] There should be little trouble on this score as long as the law to be enforced clearly states a public policy.

For purposes of administering the act, the board has set up a central office in Washington, and over a score of regional offices.

Among the board's staff services, none are of more importance than those done by the divisions of economic research and of publications. These services, especially that of economic research, are a powerful complement to the board's legal work. No small amount of the success that the NLRB has had before the courts may be attributed to facts that it has been able to present on the respective industries. The constitutionality of the act is based on a showing that the business of the particular industry is in the flow of commerce. A reading of some of the board's decisions will show how thoroughly the threads of each industry are traced to show that manufacturing is no longer something in a self-contained unit that precedes commerce, but that the continuous flow of material to and from the plant constitutes a complex organization affecting commerce. Public policy cannot be deter-

[3] Quoted in first Annual Report, *op. cit.* p. 9.
[4] *Cf.* Rathbun v. U. S. 295 U. S. 602 (1935).

mined or enforced in a vacuum, or by legal precedents alone. Adjudication as well as legislation must be based on the facts of economic and social conditions. Only in this way can the law be vital. For the purpose of finding these facts a bureau of economic research is invaluable. In this regard administrative tribunals performing judicial functions have an advantage over the regular courts. This is only one reason why the Federal District Courts should not supplant the National Labor Relations Board.

Second only in importance to the division of economic research is the publications division which is the board's channel of information to the public. As we have just seen the National Labor Relations Board started its work in an "atmosphere of hostility." This was partly based on misunderstanding. There were United States district judges, for instance, who believed that the act provided for compulsory arbitration, and others who were under the impression that it established conciliation.[5] A better understanding of the law, and favorable judicial decisions have removed some of this hostility. The publications division does not argue the board's case before the people, but "confines itself solely to the distribution of facts about its operation."[6] Industrial relations have created a tremendous amount of interest of late. By answering the telephone and the numerous letters of inquiry, and by press releases, a division of this kind relieves greatly the members of a quasi-judicial board. It is certainly a one-sided kind of argument that would deny an administrative tribunal this method of handling its public relations, while condoning the propaganda of hostile private organizations.

A territorial devolution of functions is necessary in administering a federal law of the character of the National Labor Relations Act. A new lay-out of regions has been made—22 in number.[7] In these new federal regions the sovereign states have been treated with scant respect. Their boundaries have not been regarded. For instance, all of New York is in region three except for some 24 counties which are included in the second region. The fifth

[5] Report, *op. cit.*, p. 49.

[6] *Ibid* p. 69.

[7] Second Annual Report, NLRB, pp. 9-11 (1937). Cf. J. W. Fesler, *Federal Administrative Regions*, 30 *American Political Science Review* 257 (1936).

district includes Virginia, North Carolina, the District of Columbia, Maryland, two of Delaware's three counties, and a slice of West Virginia. Each regional office is staffed by the regional director and an attorney who report to the board's chief secretary and general counsel respectively. While the regional director is an agent of the central board for enforcing a law, his very position in the region where the trouble lies—his "closeness to the climate of opinion" makes it possible for him to prevent many labor disturbances through adjustments. In other words he conciliates without compromise with the law. "Sometimes this necessitates nothing more than a telephone call, or the arranging of a conference between the parties. At other times it involves persuading the parties to arbitrate their disputes. . . . No statistical record is kept of this phase of the board's work . . . but it has been an important contribution to industrial peace."[8]

II

The board's procedure has developed around the enforcement of its two main functions under the organic act: insuring to employees the full benefit of their legal right to self-organization and to collective bargaining. Section 10 of the act provides certain basic rules of procedure to be followed in enforcing those employer practices declared by Section 8 to be unfair and illegal. For instance, the organic act calls for (1) a charge, (2) a complaint, (3) an answer to the complaint, and (4) a hearing. These steps precede the order to cease and desist from the unfair practice, but this is as far as the board can go. An enforcement order must be sought by petition from a United States Circuit Court of Appeals. The court likewise may be appealed to by a citizen seeking relief from the board's order. In court proceedings, however, the board's order, if supported by evidence, is conclusive as to findings of fact.

In its rules of practice the board has elaborated these statutory standards of procedure.[9]

[8] *Ibid.*, Report p. 17.

[9] The Rules and Regulations of the National Labor Relations Board may be had in a separate pamphlet. They are also printed in Decisions and Orders of the National Labor Relations Board, Vol. I, appendix 2. For the board's comments on its rules and regulations, see Annual Report, pp. 21–28 (1936).

Any person or labor organization may make a written charge that some employer is engaging in an unfair labor practice. As a general rule these charges go to the director of the region where the practice is occurring. Both the director and the regional attorney collaborate in making a preliminary investigation of the charges. If found to be without foundation the complaint is dropped, which relieves the person complained against of further embarrassment. On the other hand if the regional director finds that the law has been disregarded, he first tries to get the respondent to comply with its provisions. Failing this he issues a formal complaint in the name of the board which contains a statement of the charges, and a notice of the time and place of hearing. As we have just seen, the respondent may file an answer to the complaint wherein he enters a denial, an admission, or an explanation.

A hearing for the purpose of taking evidence is conducted by the board itself, or by a trial examiner designated by the board. These hearings are public, which is of some importance because of the interest that they create. They make visible a new and rather suspicious government agency, and afford opportunities to create opinion that may be favorable or unfavorable. In most instances, I believe, a person's attitude on leaving a hearing of this kind depends upon his state of mind on entering.

The purpose of the hearing is furthered by the board's power to subpoena witnesses and papers. Any party to the proceeding may appear and participate either in person or by counsel. The board interprets its role as that of responsibility for enforcing a public policy. It is, therefore, represented by counsel, usually the regional attorney, whose duty is to prove the charges made in the complaint; a duty that may seem somewhat inconsistent with the board's instructions that their lawyers shall not assume the pose of prosecuting attorneys trying to convince a jury, but rather shall take the attitude of disinterested investigators endeavoring to bring out all the evidence that bears on the charges that the respondent employer is guilty of an unfair labor practice.[10] A more flexible procedure than that found in the practice of ordinary law courts is the purpose of the provision in the organic act that

[10] Annual Report NLRB, p. 23 (1936).

releases the board from observing "the rules of evidence prevailing in courts of law or equity." In interpreting this provision the board has taken the view that the rules of evidence are not to be disregarded but are to be applied liberally. While getting rid of some of the technical formality of the court room, an effort is made to conduct the hearing with dignity and impartiality. The trial examiner may exclude a person for unbecoming or "contemptuous conduct," and may strike out all the testimony of a recalcitrant witness. Following the hearing all parties are allowed to present oral argument, and written briefs may be accepted.

After consideration of the case in hearing, the trial examiner files with the regional director who issued the complaint an intermediate report which contains, (1) findings of fact, and (2) recommendations as to disposition of the case. The regional director sends the original copy of the report to the board's Washington office, and other copies are mailed to the parties to the proceedings. Any interested party may file with the board a statement of exceptions to the report. On receiving the record in the case, it is first analyzed by the review section, then it goes to the board which may take any one of several steps: (1) it may dismiss the complaint, if the report does not prove a violation of the law; (2) it may take further evidence; or (3) if the record shows that the employer has committed an unfair labor practice, as defined by the act, the board may take either the negative action of issuing an order to cease and desist from the practice, or it may take such affirmative action as the case calls for, for example, a reinstatement of employees who have been laid off because of some action in connection with labor unions. No penalties are provided for disobeying a board order. As we have seen, the board may petition a United States Circuit Court of Appeals for enforcement.

The intermediate report, just mentioned, is not required of the organic act, but has been developed by the board because: (1) it safeguards the respondent "in that it makes known to him the findings and recommendations of the person who took the testimony in the first place; (2) it aids in obtaining compliance with the requirements of the act without the necessity for a review by the board and the taking of further formal steps; and (3) the intermediate report and the exceptions thereto sharpen the issues

for consideration, and assist the board in making proper disposition of the case."[11] As we have seen, the case may be transferred to Washington for hearing before the national board, in which event an intermediate report by the trial examiner is not filed. A procedure of this kind does not violate the procedural rights of the party complained against, because as the Supreme Court in an illuminating case[12] has said: "the Fifth Amendment guarantees no particular form of procedure, it protects substantial rights;" but, as the Court had declared in a previous case, "a fair and open hearing must be given."[13] It is important, therefore, that the organic act lay down the procedural standards of an administrative agency vested with the exercise of legislative or judicial powers.[14]

As just noted, Section 9c of the act attempts to guarantee collective bargaining through representatives of labor's own choosing. This right is based on the principle of majority rule, that is to say, a representative selected by the majority of the employees in an appropriate unit shall be the exclusive representative of all the workers in that unit for purposes of collective bargaining in respect to wages, hours, and conditions of employment. Under this principle of majority rule the minority's rights must necessarily be restricted. The act provides, however, that "any individual employee or group of employees shall have the right at any time to present grievances to their employer." Whenever a question arises concerning employee representation, the board may in-

[11] *Ibid.* p. 24.

[12] NLRB v. Mackay Radio and Telegraph Co., 58 Sup. Ct. 904 (1938).

[13] Morgan v. U. S. 58 Sup. Ct. 773 (1938).

[14] On this point the United States Supreme Court in one of the leading cases, said: The procedural provisions of the Act are assailed. But these provisions, as we construe them, do not offend against the constitutional requirements governing the creation and action of administrative bodies. The act establishes standards to which the Board must conform. There must be complaint, notice, and hearings. The Board must receive evidence and make findings. The findings as to the facts are to be conclusive, but only if supported by evidence. The order of the Board is subject to review by the designated court, and only when sustained by the court may the order be enforced. Upon that review all questions of the jurisdiction of the Board and the regularity of its proceedings, all questions of constitutional right or statutory authority, are open to examination by the court. We construe the procedural provisions as affording adequate opportunity to secure judicial protection against arbitrary action in accordance with the well-settled rules applicable to administrative agencies set up by Congress to aid in the enforcement of valid legislation. NLRB v. Jones and Laughlin Steel Corp., 301 U. S. 1 (1937).

vestigate, and if necessary may take a secret ballot for determining the representative. While the board may initiate investigations to determine employee representation, it is the usual procedure to wait for such cases to be brought by petition filed with the regional director by some labor organization. An employer of labor cannot initiate an investigation to decide employee representatives. In the preliminary investigations, in the hearings and reports by the trial examiner, the procedure under representation cases is similar to that followed in complaint cases, outlined above. After considering the complete record submitted by the regional director, the National Labor Relations Board may either close the case by certifying the employee representative, or it may direct an election by secret ballot to decide whom the workers wish to represent them in collective bargaining. Holding an election of this kind is such an interesting example of democracy in industry that no apology is needed for outlining in the following paragraph the steps in the procedure.

The board's "Direction of Election" names the conditions under which the election is to be held, the person to supervise the election, the time, place, and employees eligible to vote. As a usual thing the board directs the regional director to hold the election. A close parallel to the balloting by political parties is recognized in the following description by the NLRB:

> In almost all cases election notices were posted and distributed several days before the date of the election. These notices contained full details about the election, setting forth the time and place of polling, the purpose of the election, and a copy of the ballot to be used. This enabled the employees to become familiar with the procedure to be followed and avoided much confusion and delay at the polling places. Usually each party had watchers and tellers present at the polling places, and these representatives signed certificates before the ballots were counted stating that the elections were conducted properly and fairly.[15]

[15] Annual Report NLRB 30 (1937). A majority of those voting is necessary to elect. Commenting on this the Supreme Court said: "We see no reason why the act should not be interpreted as contemplating that this well settled rule of elections should be applied in the case of the employees' election for which it provides, in cases like this where a majority of those qualified to vote participate in the election. Such a rule is fair and just to all parties. It gives every employee an opportunity to express his choice. It preserves the secrecy of elections and it prevents the breaking down of the plan of collective bargaining".

After the election is held the regional director compiles a tally of the ballots in an intermediate report which he sends to interested parties. An objection to the ballot may then be filed. A hearing before a trial examiner may follow. Then come the final report of the examiner, and the board's decision.

During the first three years of the board's life (1935-38) 966 elections to determine employee representatives were held—80.4 per cent of these elections were held by consent of the parties concerned, and 19.6 per cent were ordered by the board. Of the total number of valid votes cast, 81.1 per cent were in favor of the trade unions, and 13.6 per cent were cast for the company union against the trade union, and 5.3 per cent were for no union. In many representative elections there is keen rivalry between the A.F. of L. and the C.I.O. From 1935 to September, 1938, there have been 408 election contests between C.I.O. and A.F. of L. unions. In the 48 cases where the vital issue was the determination of the appropriate unit, 24 were settled in favor of the A.F. of L.; 19 were in favor of the C.I.O.; and 5 were compromises, the A.F. of L. receiving the advantage in four instances.[16] It would seem that these election statistics would explode any criticism against the NLRB because of its bias toward the C.I.O.

In the foregoing it is seen that the board's procedural process is concerned with two types of cases:[17] (1) complaints cases, that is, charges against the employer who is alleged to have committed unfair labor practices; (2) representation cases, that is, petitions from labor organizations to investigate and certify the employee representative. Chairman Madden says that, "between the first hearing in 1935 to June 1938, some 16,200 cases involving about 3,900,000 employees were brought to the Board. . . . More than three-fourths of these cases were closed during the period. Of these about sixteen per cent were dismissed, twenty-five per cent were withdrawn, fifty-four per cent were settled by mutual agreement, and only five per cent of all the charges filed required a formal hearing before a trial examiner."[18] In making these

[16] R. R. Brooks, *Unions of Their Own Choosing*, pp. 163-165. J. W. Madden, "The G—D—Labor Relations Board," *Fortune*, October, 1938.

[17] The A. F. of L. would consider contract cases as a third kind.

[18] J. W. Madden, "The G—D—Labor Relations Board," *Fortune*, October, 1938. Cf. also Brooks, *op. cit.*, p. 16.

settlements prior to formal action, there was no compromise with the law.[19]

III

In its procedure under the act, the board has encountered legal difficulties. At the very beginning injunction suits were brought in the United States district courts to enjoin the board from holding hearings and elections. Litigation of this kind from all parts of the country rolled up like a snowball.[20] In all, 97 injunction suits were brought.[21] In several cases[22] the Supreme Court has supported the board's point of view that it may not be enjoined by federal district courts from taking the procedure outlined in the law, but that the proper remedy, as provided in the act, was a review of the board's final order by the United States Circuit Court.

The board has been generally successful in the dozen or more cases in which it has appeared before the Supreme Court. While these notable victories are deservedly gratifying to the new government agency, they do not necessarily mean that the board's authority in labor relations is unlimited. Its jurisdiction, of course, is no greater than Congress' power under the commerce clause.[23] Every case before the court is therefore decided upon a showing that the unfair labor practice has a direct bearing on interstate commerce. It is for this reason that the board is careful both to compile detailed facts that show the ramifications of the industry, and to take pains to describe the character of the employer practices complained about.

[19] Annual Report, p. 21 (1937).

[20] Annual Report, p. 48.

[21] Cf. Summary of Litigation, NLRB press release, June 14, 1938. The Board won 77 per cent of its injunction cases in the district courts, 94 per cent in circuit courts, and 100 per cent in the Supreme Court.

[22] Myers v. Bethlehem Shipbuilding Corp., 303 U. S. 41 (1938); Newport News Ship Building and Dry Dock Co. v. Schauffler. *Ibid.*, p. 54.

[23] As Chief Justice Hughes says: "The grant of authority to the Board does not purport to extend to the relationship between all industrial employees and employers. Its terms do not impose collective bargaining upon all industry regardless of effects upon interstate or foreign commerce. It purports to reach only what may be deemed to burden or obstruct that commerce, and thus qualified, it must be construed as contemplating the exercise of control within constitutional bounds. It is a familiar principle that acts which directly burden or obstruct interstate or foreign commerce, or its free flow, are within the reach of the Congressional power." NLRB v. Jones and Laughlin Steel Corp., *op. cit.*

In a leading decision[24] the Supreme Court sustained the board's jurisdiction under the National Labor Relations Act which is "within the reach of congressional power" for three reasons. (1) There is a direct relation between employer practices that cause labor disputes and interstate commerce. (2) The rights that the act guarantees employees are fundamental. As Chief Justice Hughes, speaking for the Court, says:

> Employees have as clear a right to organize and select their representatives for lawful purposes as the respondent has to organize its business and select its own officers and agents. Discrimination and coercion to prevent the free exercise of the right of employees to self-organization and representation is a proper subject for condemnation by competent legislative authority. Long ago we stated the reason for labor organizations. We said that they were organized out of the necessities of the situation; that a single employee was helpless in dealing with an employer; that he was dependent ordinarily on his daily wage for the maintenance of himself and family; that if the employer refused to pay him the wages that he thought fair, he was nevertheless unable to leave the employ and resist arbitrary and unfair treatment; that union was essential to give laborers opportunity to deal on an equality with their employer.[25]

(3) "Interstate commerce," the Court says, "is a practical conception. It is equally true that interference with that commerce must be appraised by a judgment that does not ignore actual experience. . . . The Congressional authority to protect interstate commerce from burdens and obstructions is not limited to transactions which can be deemed to be an essential part of a 'flow' of interstate or foreign commerce. Burdens and obstructions may be due to injurious action springing from other sources. . . . Experience has abundantly demonstrated that the recognition of the right of employees to self-organization and to have representatives of their own choosing for the purpose of collective bargaining is often an essential condition of industrial peace. Refusal to confer and negotiate has been one of the most prolific causes of strife." Therefore, the Court concludes, the steel corporation "presents in a most striking way the close and intimate relation which a manufacturing industry may have to interstate commerce and we

[24] *Ibid.*

[25] *Ibid.*, p. 33.

have no doubt that Congress had constitutional authority to safeguard the right of respondent's employees to self-organization and freedom in the choice of representatives for collective bargaining."

In subsequent cases the Supreme Court has upheld NLRB orders and jurisdiction.[26] In the Mackay Radio and Telegraph Case,[27] the Court held: (1) that workers on strike remain employees, at least, as far as the purposes of the act are concerned; (2) that the board's procedure in omitting the trial examiner's report had not offended due process because that clause does not require any particular form of procedure. In the Associated Press Case,[28] the Court held that the discharged employee's work (an editorial writer) bore a direct relation to the AP's interstate commerce activities, and that the National Labor Relations Act does not deny freedom of the press. In the Pacific and Pennsylvania Greyhound Cases, the Supreme Court upheld the board's order to disestablish company dominated unions as agencies for collective bargaining.[29] In the Santa Cruz Fruit Packing Case[30] the Supreme Court held that the company's unfair labor practices were under the board's jurisdiction when all the raw material originated in the state but 37 per cent of the finished product was shipped out of the state.

The board's smooth sailing in its litigation before the Supreme Court was stopped February 27, 1939, when in one day's time the Court in three decisions challenged the board's orders. In the Fansteel Case,[31] Mr. Chief Justice Hughes, speaking for the majority, held that the board went beyond its discretion in ordering the reinstatement of employees discharged because of their "unlawful conduct in seizing respondent's property in what is called a sit-down strike" . . . which the Court declared to be a "high-handed proceeding without shadow of legal right." In the Sands Manufacturing and the Columbian Enameling and

[26] *Cf.* NLRB v. Friedman-Harry Marks Co., 301 U. S. 58 (1937).
[27] NLRB v. Mackay Radio and Telegraph Co., *op. cit.*
[28] Associated Press v. NLRB, 301 U. S. 103 (1937).
[29] 58 S. Ct. 571, 577 (1938).
[30] 58 S. Ct. 656.
[31] NLRB v. Fansteel Metallurgical Corp., No. 436 (1939).

Stamping Co. Cases,[32] the Court carried its battle with the administrative to the extent of entering the field of controversial fact by holding that the evidence did not sustain the board's findings that respondent companies had refused to bargain collectively with union representatives of their employees. In all three of these decisions Justices Black and Reed dissented, Mr. Justice Frankfurter took no part in the decisions. As Mr. Justice Black quite clearly points out in the Columbian Case, "Courts should not—as here—substitute their appraisal of the evidence for that of the board. . . ." Moreover, as Justice Black contends, the decision tends to nullify Congress' efforts by establishing administrative agencies "to utilize procedures more expeditious and administered by more specialized and experienced experts than courts had been able to afford."

These decisions by the Supreme Court indicate quite clearly that the most effective amendment of the National Labor Relations Act may be made by the judiciary. The only thing that the Court need do is to develop a generality "The Legal Strike," and it can strike down the NLRB in the same way that the "Rule of Reason" emasculated the Sherman Act, and the "Fair Rate of Return on Fair Value" has weakened the government's attempt to regulate public utilities. The leaders and friends of labor may well be uneasy that reaction will again reduce to nothingness another labor Magna Charta.

On the whole, however, a mere summary of NLRB decisions indicates the notable concessions American labor has won in the courts. It is not at all a disparagement of the judicial function to note a considerable trimming of precedents to reach conclusions that enable the Congress to control labor relations in manufacturing plants. An intransigeant attitude, such as that adopted by the minority, while more consistent with former decisions,[33] is not

[32] See Supreme Court of the United States' advance prints Nos. 274, and 229.

[33] *Cf.* for instance: U. S. v. E. C. Knight Company 156 U. S. 1 (1895). Where the court used such significant language as, "Commerce succeeds to manufacture and is not part of it. . . The regulation of commerce applies to the subjects of commerce and not to matters of internal police. . . The intent of the manufacturer to export does not determine the time when the article passes from the control of the State." See also Schechter v. U. S. 295 U. S. 495 (1935); and Carter v. Carter Coal Co. 298 U. S. 238 (1936).

the part of wisdom. Mr. Justice McReynold's dissenting dictum in the Laughlin Case that "any effect on interstate commerce by the discharge of employees shown here would be indirect and remote in the highest degree," is a more logical attitude, and he is entirely safe in saying that the act, as applied to manufacturing concerns, "puts into the hands of a National Board power of control over purely local industry beyond anything heretofore declared permissible."[34] While willing to modify, the majority of the Court were not ready to abandon entirely the precedents of former decisions. For example, they say that the Schechter and the Carter decisions are not controlling here because there (Schechter Case) the effect was so remote as to be beyond the federal power. "To find immediacy or directness there was to find it almost everywhere, a result inconsistent with the maintenance of our Federal System."[35] One may form his own opinion as to who is torturing the Constitution here. The result, as we have said before, is to force the NLRB to find evidence sufficient to show a direct relation to interstate commerce.

IV

The generality of Congress' policy expressed in the National Labor Relations Act has left many questions for administrative determination. In numerous decisions answering these questions the National Labor Relations Board is making law.[36] A brief outline, that follows the provisions of the act, will show the labor board in a significant role.

Section 7, as we have seen, guarantees employees the right to self-organization, and to bargain collectively through representatives of their own choosing. Section 8 (1) makes it an unfair labor practice for an employer to interfore with these rights of his employee. It is, therefore, the task of the administrative agency to determine what employer practices fall under this section. Employer violation of any of the subdivisions of Section 8, other than section 1, has been consistently held by the board to be also

[34] NLRB v. Jones and Laughlin Steel Corporation, *op. cit.*

[35] *Ibid.*

[36] *Cf.* Decisions and Orders of the NLRB. Seven volumes covering cases have been published.

a violation of section 1. In several cases,[37] the board has held that Section 8 (1) may be violated by employer activities that do not fall within the practices declared illegal by any of the four subdivisions of Section 8. These are, for example: espionage activities, bribery, spreading propaganda for the purpose of discrediting the union, economic pressure, demoralizing the worker's union activities by approaching him individually or by sending "missionaries" to drop in at his home for purpose of anti-union propaganda among members of his family.

The terms in Section 8 (2) "to dominate or to contribute financial support" to any labor organization have specific reference to employer interference by means of company supported unions in his employees' right to self-organization. A labor organization, whatever its name, must be one controlled by the employee for the purpose of dealing with the employer concerning grievances over wages, hours, and conditions of labor, and not an employer dominated organization.[38] In several instances the board has found sufficient evidence to support an order to disestablish such an employer controlled union.[39]

In Section 8 (3) is found the declaration against the use of the job contract to interfere with the worker's right to join a labor union, that is, the anti-"yellow dog contract" which has been running through several recent labor laws. The board has interpreted this clause as not restricting the employer's right to hire and to fire his employees for almost anything he is pleased to, except for joining a labor union. "The only issue with which we are concerned," the board says, "is whether Green had been discharged because of Union activity." Section 8 (3), as construed by the board, "forbids the employer to affect or change an employment relationship because of the employee's Union membership or activity."[40] When the employer gives all kinds of reasons for discharging a worker, other than union affiliation, the board has to go

[37] For summary, *cf.* Annual Report NLRB, pp. 58–69 (1937), and Annual Report, pp. 51–65 (1938).

[38] *Ibid.*, Annual Report, pp. 94–104 (1937), and Annual Report, pp. 108–126 (1938).

[39] *Cf.* for instance, in the matter of International Harvester Company, 2 NLRB 310 (1936). *Cf.* also, Supreme Court decision in the Pennsylvania Greyhound Case, *op. cit.*

[40] Matter of Montgomery Ward and Co., *et al.*, 4 NLRB 1151.

into the background of the case for sufficient facts to reach a conclusion.[41] The board's conclusions in this matter, as we have seen, are now liable to over-turn by the Court's interpretation of a legal strike.

Section 8 (5) declares it an unfair labor practice for an employer to refuse to bargain collectively with his employees' representatives selected (9a) for the purpose of collective bargaining by the majority of workers in a unit appropriate for such purposes. This section of the act leaves for the administrative tribunal to answer specificially such significant questions as: What is collective bargaining? What is the unit most appropriate for representation in collective bargaining? Who are the representatives of this unit?[42]

From the leading decisions[43] of the NLRB on this subject one may conclude that collective bargaining means more than courteous listening to employees' complaints, followed by a perfunctory yes or no answer. It means more than a discussion, as important as this is. Collective bargaining carries with it the obligation of an open-minded meeting of the representatives of both sides, of an earnest endeavor in good faith to reach an understanding, and of embodying this in an agreement mutually binding for a certain time. "The final attainment of an understanding, and the signing of the contract embodying the fruits of this understanding are part and parcel of the process of collective bargaining."[44] As the old NLRB said:

> Collective bargaining, then, is simply a means to an end. The end is an agreement. And, customarily such an agreement will have to do with wages, hours and working conditions, and will have a fixed duration. The purpose of such an agreement has been to stabilize, for a certain period, the terms of employment, for the protection alike of employer and employee.[45]

[41] Annual Report NLRB, pp. 69–79 (1937), and Annual Report, pp. 65–89 (1938).

[42] *Ibid.*, pp. 79–94; 27–216.

[43] *Cf.* for instance: In the Matter of the Timkin Silent Automatic Company, 1 NLRB 335 (1936); In the Matter of the Sands Manufacturing Co., 1 NLRB 546 (1936); In the Matter of the St. Joseph Stock Yards Co., 2 NLRB 39 (1936).

[44] Matter of the Louisville Refining Co., *et al.*, 4 NLRB 844.

[45] In the Matter of Houde Engineering Corp., 1 NLRB (old) 35.

On the same topic, and in smoother language, the United States Supreme Court says:

> Collective bargaining does not require any agreement between parties. It does not require those preliminary steps without which no agreement can be reached. It at least requires the employer to meet and to confer with the authorized representatives of the employees, to listen to their complaints, to make a reasonable effort to compose differences, in short to enter into a negotiation for the settlement of labor disputes.[46]

As to the appropriate bargaining unit, Section 9 (b) refers to the employer unit, the craft unit, the plant unit, or subdivision thereof. It is the board's responsibility, when the question is raised, to determine the proper unit. A number of factors are considered in reaching conclusions, especially the matter of community of interest as shown by the nature of the work, by skill, and by a common wage scale. "This community of interest," the board says, "may lead to organization along craft lines, along industrial lines, or in any number of other forms representing adaptions to special circumstances. The complexity of modern industry . . . and the numerous and diverse forms which self-organization among employees can take, preclude the application of rigid rules to the determination of the unit appropriate for the purposes of collective bargaining." As the board says: "The designation of a unit appropriate for the purposes of collective bargaining must be confined to the evidence and circumstances peculiar to the individual case."[47]

A question as important as determining the appropriate bargaining unit is that of finding, in case of doubt, the legitimate employee representative. The board's procedure in representative cases has just been described. In several cases it has been called upon to make a decision between trade unions and company unions, between craft units of the A.F. of L. and the C.I.O. industrial units. An interesting illustrative case is the National Electric Products Corporation[48] where the board had to decide between the A.F. of L. and the C.I.O. In this case a closed shop agree-

[46] Virginia Railway Company v. System Federation No. 40, 300 U. S. 515 (1937).

[47] Annual Report NLRB, pp. 122–140 (1937). For thorough discussion of the matter raised in this paragraph see Annual Report NLRB, pp. 156–196 (1938).

[48] 3 NLRB 475 (1938) As a result of the election the A. F. of L. affiliate was certified as the representative of a majority of the employees (145 Nation 252).

ment had been made between the company and the A.F. of L. which recognized the latter as the representative unit, while the C.I.O. claimed to represent a majority of the workers. On a petition by the C.I.O., the NLRB entered the case and after a hearing directed an election to determine which union was legally entitled to represent the employees for collective bargaining.

In its investigation and certification of representatives, the board has established certain principles. Only a mere summary may be given in this place.

The board will order an election if evidence as to employee representative is inadequate. When elections are called for this purpose, the board has held: (1) That those employees are eligible to vote "who were employed on the date on which the eligibility of voters is determined, except those who have since quit or been discharged for cause." The Supreme Court has held, as we have seen, that an employee discharged for an illegal act (sit-down strike) is no longer an employee eligible for reinstatement. (2) An employee may vote in absentia. "It has been the purpose of the board to conduct elections under circumstances which would reflect the free and independent choice of the employees involved." This means that a company representative may not be present at an election, if his presence prevents a free, uncoerced choice.[49]

As to the effect of an existing contract, the board maintains that a contract is no bar to an election or certification of representatives "if the organization with which it was made did not represent a majority of the employees at the time the contract was executed." A contract also must not bar the free and uncoerced choice of the majority.[50]

The board's power to establish legal principles to govern contractual relations has been seriously challenged by the Supreme Court's recent decisions in the Consolidated Edison and the Sands cases.[51] In the Edison case the board insisted that contracts between the company and an affiliate of the A.F. of L. were invalid because they were part of a plan "of coercion and interference with the self-organization of the employees." The Supreme Court

[49] Annual Report NLRB, pp. 139–147 (1938).

[50] For reference to Board Cases on this matter see *ibid.* pp. 134–38.

[51] See also 4 NLRB, pp. 83–94, 540.

refused to sustain this contention, and held that the board was going outside its authority in requiring the Edison Company to desist from giving effect to the Brotherhood contracts because: "The Act gives no express authority to the Board to invalidate contracts with independent labor organizations. . . . The Brotherhood and its locals having valuable and beneficial interests in the contracts were entitled to notice and hearing before they could be set aside." A grain of comfort for the NLRB may be found in the last statement. If it is only a procedural defect that the Court objects to, this may easily be corrected. In a strong dissent Justice Reed takes a more pessimistic view. He says that:

> To interpret the Act to mean that the Board is without power to nullify advantages obtained by the Edison companies through contracts with unions, partly developed by the unlawful interference of the Edison companies with self-organization, is to withdraw from the Board the specific authority granted by the Act to take affirmative action to protect the workers' right of self-organization, the basic privilege guaranteed by the Act. Freedom from employer domination flows from freedom in self-organization.

In the Sands case, there was a contract between the company and the union (MESA). Subsequent to this agreement the company closed the plant because of a disagreement as to application of terms of the contract, and later opened with new men under a contract with another union more agreeable to the employer's point of view. The Supreme Court held: "The Act does not prohibit an effective discharge for repudiation by the employee of his agreement, any more than it prohibits such discharge for a tort committed against the employer."

V

The National Labor Relations Act, which guarantees labor's right to collective bargaining through representatives of their own choosing, is the working man's greatest legislative achievement. By this law government enters to equalize the wage earner's bargaining power. The public policy, announced in the act, is a promise of industrial democracy without which political democracy is indeed an empty thing. It is an encouragement to

industrial peace, by removing one of the causes of strikes—employer interference with the employees' right to self-organization and collective bargaining. The administering of the act has been an influence toward industrial peace.[52] The act recognizes the laborer's equity in his job, and gives him an opportunity by his own effort to improve his condition. It dignifies American labor. For the first time, the federal government takes effective interest in the wage earner's lot, who appears as an individual, by name, before a National Board. This policy is eminently fair to the employee, and not unjust to the employer. It is true that this public policy runs counter to the anti-social philosophy of "running my own business in my own way," which accounts in part for the bitter employer opposition to the NLRB—a philosophy which fails to take account of the peculiarities of the corporate form of business organization, as well as the employer's social obligations.

On the other hand, the act increases labor's responsibility for the public welfare. If it fails to meet this new trust, if labor gets too heavy, then the scales will be weighted against it. Some have already suggested incorporating labor unions. Whether one likes it or not, when once started on a policy of helping first one group then another, the process of throwing in or taking out weights from one then the other side of the scale will continue. A policy of this kind is based on the ideal of a middle class government that follows a middle course. It takes account of a need, as old as political thinking, that the best course is the middle one built upon a large, contented middle class. If this ideal is not true it makes a lot of difference as to who controls whom. There will then be some ground for the employers' fear of encouraging any increase in labor's political power, and consequently a labor dominated government which will make impossible a national labor policy.

There is also some validity to the criticism that such support as the act gives labor unions, and the board's power after investigation or election to certify employee representatives will tend to destroy their independent character and will make the unions mere creatures of the state. In this role, as quasi-public institutions of state policy, they will be poor agencies to defend labor's rights.

[52] The NLRB's record for the first three years: (1) 1293 strikes settled out of 1724 handled, an average success of 76 per cent; (2) 593 strikes averted. See Brooks, *op. cit.*, ch. 5.

This argument fails in understanding that the purpose of the public policy, administered by the NLRB, is to remove obstacles to self help. It might well be argued that with these obstacles to self organization and collective bargaining removed, the recent wage and hour law was unwise. It is far more reasonable to hold that a statutory guarantee of better working conditions is more apt to weaken labor organizations than a public policy that purposes to let labor help itself by the device of collective bargaining through its own organizations.

At least this policy is likely to be with us for a while, provided the labor front does not permanently divide; and provided further that the act is not weakened by so-called equalizing amendments now before Congress; or amended into nothingness by judicial interpretation. The labor movement is not so strong that the act should be amended by throwing a weight for the employers into the scales. No one denies that the National Labor Relations Act is a *national* law for labor. And no one who has impartially observed employer-labor relations for the past fifty years will deny that the employers' weight has kicked the beam of social justice in his favor. It was high time in 1935 for government to go to bat for labor. In the National Labor Relations Act government did so; and in a way that the most "rugged" of "rugged individualists" should applaud, that is, by removing obstacles to self-help.

BOOK REVIEWS

Colbert and a Century of French Mercantilism. By Charles Woolsey Cole. New York: Columbia University Press, 1939. Two Volumes. Pp. Vol. I, xii, 532; Vol. II, 675. $10.00.

This monumental treatise, the product of critical acumen applied with immense labor to a huge body of historical materials, may for convenience be divided into six parts: (1) brief backgrounds of theory and practice in respect to mercantilism, (2) personalities and theories—Richelieu, Mazarin, and Colbert, (3) Colbert and the promotion of commerce, including trade, sea power, companies, and colonies, (4) Colbert and the promotion of manufactures, (5) Colbert and the regulation of industry, and (6) Colbert and the stimulation of internal development. To these broad divisions is added at the end a brief chapter of afterthoughts and conclusions, embracing 10 pages.

Starting rather sharply at about the year 1500, Mr. Cole finds emerging a number of loose theories and practices which later became more or less united in the amalgam called mercantilism. Under this head he lists the growing esteem for gold and silver as forms of wealth and sinews of war, efforts to restrain luxury partly for the purpose of conserving these metals, recognition of industry as a source of wealth and national strength, increasing appreciation of commerce as a means of securing bullion, and the restricting of the activities of foreigners in the domestic market. These more or less disparate features were given a certain unity by overarching conceptions: "In the first place mercantilism dealt with the economic functioning of the national state, not of any smaller or larger unit. But perhaps even more characteristic was the motive which underlay all mercantilist thought, the desire to make the nation wealthy. To this all other considerations were subordinated."

This "prelude" is followed by about 250 pages devoted to the development of mercantilist theories and practices between 1596

and the death of Mazarin. Included in these pages are two long chapters on Richelieu and Mazarin respectively, with due reference to their policies, measures, and activities bearing on the formulation of the mercantile system. Although this introductory portion is largely based on printed materials already available to special students of the subject, it contains several citations of manuscript sources and serves as a warning to casual readers who might otherwise be inclined to ascribe more originality to Colbert than the plain record justifies.

On page 278 Colbert himself comes on the stage. Chapter VI covers his life and theories in 77 pages. Mr. Cole concedes that Colbert was of bourgeois origin and background, that he enriched himself and his horde of relatives in a fashion that would make an investment banker of our golden age blush with shame, and that he was as materialistic in his practical thought as any soap handler, but still he insists that Colbert "is not to be thought of as a bourgeois in high office, but as a representative of that age-old class, the courtier, and of that new class that was gradually growing up as the duties of the national state multiplied, the civil servant. As such the motives and basic ideas that moved Colbert were not even remotely business considerations of any sort. They were loyalty to the king and to the monarchy, and a desire to promote the good of the nation as a whole." (I, p. 333) This verdict rests in part on evidence that Colbert regarded the "typical bourgeois as a self-centered, narrow-minded, unpatriotic, profit-seeking individual."

Thus Mr. Cole leaves one with the impression that "the State" is something above the people, almost, if not entirely, uninfluenced by the interests and passions of the contending classes, such as landed aristocracy and bourgeoisie, and that the "civil servant" of the seventeenth century was a kind of free-floating, super-strata creature deriving his ideas and motives from some high, abstract realm occupied by "the State." Actually the absolute monarch or prince, as Machiavelli knew very well, was almost constantly engaged in trying to hold the balance between classes, leaning one way and then the other, according to the truculence of the contending interests. That the contents of the monarch's "good of the nation" concepts came from super-class sources seems to me

highly dubious. Actually also some of the men whom Colbert gathered around him, including such fellows as Bellinzani, the Italian adventurer, were (as Mr. Cole shows) frequently engaged in schemes to enrich themselves and their friends—schemes that would have made a narrow-minded, unpatriotic, profit-seeking bourgeois ashamed of his race, if he had endulged in such bare-faced pressures, corruption, and thievery.

From his study of this cold, honest, hardworking, narrow, devoted servant of the king as a kind of super-class statesman, Mr. Cole reports that Colbert was humorless also: "After reading some thousands of Colbert's letters I have been unable to discover one in which he showed more than an infinitesimal trace of a sense of humor." The letters may not betray humor, but some stories indicate that the devoted servant of the abstract State could indulge in humor occasionally. Alfred Neymarck, in *Colbert et son temps*, gives two lively examples. Once when a great lady fell on her knees before Colbert in a crowded hall and cried in tears: "Je prie Votre Grandeur, au nom de Dieu, de ne pas refuser cette grace!" Colbert instantly dropped to his knees beside her and intoned: "Je vous conjure, madam, au nom de Dieu, de me laisser en repos!" That may not be humor up in Massachusetts, but it does seem to be down in Connecticut. Again Colbert urged Molière to ridicule the Turkish ambassador in the funny scene in *Le Bourgeois Gentilhomme*, in which the parvenu gentleman learns to dance. Colbert simply doted on that play. Surely he must have had a sense of humor at least when he was not writing state papers. Besides, business and political letters, even familiar letters, do not always disclose the whole author. The point, however, is not important, except as indicating the perils involved in efforts to delineate character.

On page 356 of Mr. Cole's Volume I open the elaborate descriptive sections devoted to Colbert's actual operations in promoting commerce, industry, and the welfare of the State and nation. Here are heavily factual, carefully documented accounts of the measures adopted to stimulate internal commerce, promote foreign commerce, make tariff adjustments serve the ends of policy, cope with Dutch trade rivalry, developa big navy and assert power on the sea, stimulate the merchant marine, make the East India Company a

gigantic success, and build flourishing commerce and colonies in the New World and other points of advantage. About 230 pages are dedicated to exact descriptions of the ways in which Colbert went about building up industries for the manufacture of textiles and stockings, lace, tapestries, mirrors, and other wares. Chapter XII deals with the regulation of industry with a view to stimulating it, providing standards for goods, and guaranteeing quality. Under the head of internal development, Mr. Cole discusses Colbert's efforts in respect to "mines, land reclamation, conservation, population, the poor, the establishment of *hôpitaux généraux*, some aspects of bullionism, the question of luxury, and agriculture in various of its phases." These matters were not as significant for Colbert as commerce and industry but they occupied a large place in the thought and practice of his crowded life.

Mr. Cole's text rests upon long and painstaking studies in French archives, and he has added materially to contemporary knowledge of this subject, even in France. It is true that his discoveries pertain to broad generalizations, but French scholars will doubtless welcome them. For the English-speaking world the importance of Mr. Cole's work can scarcely be exaggerated. Given the historical significance of mercantilism, old and new, the volume of English writings on the subject is surprisingly small. The leading French works on Colbert and mercantilism have not been translated, and Americans have been little attracted to the study of continental mercantilism. The most important work available prior to the publication of Mr. Cole's treatise was Hecksher's *Mercantilism*, issued in English in 1935, but Hecksher's work is broader in scope, is organized under general principles, and perforce gives far less space to the age of Colbert. Now for the first time Mr. Cole's work presents to English readers a vast mass of the relevant details bearing on the actualities of Colbert's mercantilism. It brings large blue-prints down to earth and gives microscopic glimpses of day to day, place to place operations, which collectively made up the practices covered by the theory or doctrine of mercantilism. For all that Mr. Cole has done in the advancement of knowledge we should give hearty thanks.

When Mr. Cole departs from descriptive institutionalism and faces the significance of the mountain of facts he has amassed and

ordered, he contents himself with a scant ten pages in which to summarize his conclusions and reflections. In these ten pages he ascribes to Colbert's legacy, in some degree, French supremacy in styles and luxury goods, the survival of small-scale business, the somewhat greater tendency to protect the consumer in France, the neo-mercantilism, the economic controls by the State, and state ownership of various enterprises to be found in the French republic today. Here too Mr. Cole properly distinguishes between French and English mercantilism, but he is silent in respect to mercantilism in other countries and its long historical backgrounds running into antiquity. He dismisses as rather unrealistic "the idea of Adam Smith and of his successors in the nineteenth century that mercantilism was a congeries of unsound theories, flourishing in the absence of true knowledge of political economy, propounded by men lacking in insight, practiced by despotic governments and yielding, almost invariably, unfortunate results." Then Mr. Cole closes: "Mercantilism in France means that group of theories, policies, and practices arising from the traditions of the country and the conditions of the time, and upheld and applied by Jean-Baptiste Colbert during his years in office, 1661–1683, in his effort to secure for the nation, and for the king who symbolized it, power, wealth, and prosperity."

Although it may seem ungracious to raise any questions about a work that so much enlarges our information and is written in a flowing style that makes even tables readable, some personal reflections may not be amiss, especially as they are set down in the interest of American scholarship, as I am given to see it. As was said of an English writer: "Fortunate is the man who has a loving and disrespectful family," so it may be said that fortunate is the author who has a delighted and critical reviewer. Mr. Cole's book represents the strength of American scholarship: an indefatigable capacity for research and for the accumulation and ordering of particular facts. It represents also our weakness: our apparent unwillingness to face the truth that any body of facts, no matter how large, is enmeshed in a still larger context and that valid generalizations on the facts involve the utmost thought about the enveloping medium of fact and thought; and our tendency to shrink from bold generalizations that relate

thought respecting the particular body of facts under immediate consideration to the evident issues of the years, even into our own time.

The nature of this broad generalization may be illustrated by concrete examples. Speaking of industrial regulations under Colbert, Mr. Cole says that it is difficult to determine how thoroughgoing was the enforcement, and then adds (II, p. 441) that Colbert "tried earnestly and persistently to enforce them and that he set up a machinery which, gradually improved over the course of time, made enforcement possible." Compare this with Heckscher's treatment of the outcome (Band I of the German edition, pp. 432 ff.). He quotes Vandal as saying that "from the administrative point of view Napoleon organized not the Revolution but the ancien régime," and then proceeds to show how Napoleon and the Revolution carried on Colbert's work more effectively in various direction. "National unification could only be effected when Absolutism cut off the bough on which it sat." It was in the National Assembly that the cry went up: "No provinces, no privileges." In Heckscher's pages we see Colbert as a path breaker for long time and hence gain what seems to me a deeper insight into the time-span significance of his theory and practice.

Again take Ernst Oberfohren's *Die Idee der Universalökonomie in der französischen wirtschaftswissenschaftlichen Literatur bis auf Turgot* (1915). In this volume, the work of Colbert and his century are placed in an almost cosmic setting which embraced the autarkie of the Platonic-Aristotelian school and the universal conceptions of the Stoics and the various modifications of these doctrines, which, like the poor, have been with us always, even unto these latest days. It is a striking thing, not sufficiently emphasized by Mr. Cole, that another thesis opposed to Colbert's was powerfully current at the same time—the thesis of free will, liberalism, fraternity, and peaceful internationalism. Bossuet, Louis XIV's court preacher, declared that "Dieu a établi la fraternité des hommes" and that commerce is a unifying force that works toward the world fraternity of nations (Oberfohren, p. 78).

In this line also Heckscher too is to be contrasted with Cole. In his closing chapters, Heckscher makes a special point of showing

the extent to which mercantilism really prepared the way for liberalism in economy in many respects. In cutting loose from ethics and religion and concentrating on the creation of wealth, mercantilism represented the naturalistic philosophy so dominant in liberalism—whence Marx took it as the basis for a clear-cut materialistic conception of economics and history. If anyone enjoys excitement while reading, he will get more intellectual jars and satisfactions from pp. 245–312 of Heckscher (Band II, German edition) than from Mr. Cole's two volumes.

Nor does Mr. Cole put much emphasis upon the ideologic elements introduced into the scene by Colbert's toleration of Jews and Huguenots. To be sure he refers to various facts, but neither Tawney nor Max Weber appears in his index. Colbert thought that the Christian merchants of Marseilles were "the worst rascals in France" and that they wanted to oust the Jews merely from pure jealousy. This realistic view of things was a departure from the mediaeval doctrine of heresy, and the Jews certainly promoted the idea of universal economy, as distinguished from autarkie. There is an important idea here, and I think that Mr. Cole could have given a few pages to it, even at the sacrifice of a few illustrative facts. Likewise, the role of Protestant merchants and artisans in a Catholic country had an ideological meaning (see Tawney and Weber) which Mr. Cole passes over too lightly.

A word may be said about a detail. Heckscher (Band I, pp. 133 ff.) devotes some space to a discussion of the intendants—their technical knowledge, their frequent knavery, their lack of originality, and their development of a kind of frozen vested interest. After indicating this problem, Heckscher says that he knows of no comprehensive work on the subject of the intendants. Certainly the subject is of immense importance for an understanding of just what happened at the grass roots in France. But Mr. Cole has not supplied the volume for which Heckscher asked. This is no criticism of Mr. Cole, who certainly has a right to lay out his own ground, but it is a mere expression of regret from one who is not yet entirely satisfied.

Perhaps the above references to *Ideengeschichte* may seem out of place here. Our institutional economists are inclined to run

from ideas as from cholera and yellow fever. Ideas are troublesome, elusive, and positively dangerous, no doubt, but they have long been and still are in the world and all economic interests and practices are associated with them. We may seek to avoid ideas but we cannot escape their impacts. And strange to say, with all our passion for "facts" and "institutions," we are, consciously or unconsciously, as much dominated by simple ideas as any people on earth. I cannot help feeling that mingling a little more thought with our facts would be helpful to both theory and practice—if we believe that getting all the truth we can is good for us. But that, of course, is a mere matter of opinion and has nothing immediately to do with the positive merits of Mr. Cole's treatise, for which even the most critical will be grateful until the end of time.

New Milford, Connecticut CHARLES A. BEARD

The Zollverein. By W. O. Henderson. Cambridge: Cambridge University Press, 1939. Pp. xv, 375. $4.50.

Social and Economic History of Germany from William II to Hitler, 1888–1938: A Comparative Study. By W. F. Bruck. Oxford: Oxford University Press, 1938. Pp. xv, 292. 12s.6d.

Professor Henderson's volume is both an historical contribution of significance and a timely work in the light of current world problems. The *Zollverein* not only played an important role in bringing about German unity, but also offers a lesson for us today with respect to the possibility of limiting economic nationalism and promoting freer trade.

Professor Henderson treats of the historical background of the *Zollverein*; describes its origins in some detail; traces the way in which it worked out in practice; and discusses the creation of the new Customs Union in 1866–67. Both the successes and the difficulties encountered are fully expounded and thoroughly analyzed. Professor Henderson arrives at the following conclusions relative to the larger significance of the *Zollverein* in German history:

> The development of the *Zollverein* had thus both an economic and a political significance. It contributed to that expansion of manufactures and commerce in the 'fifties and 'sixties which prepared the way for

Germany's rapid rise after 1871 to the position of the chief industrial State on the Continent. . . .

The *Zollverein* contributed to the attainment of German unity. The figure of Bismarck dominates Germany in the 'sixties, and students who investigate the history of the founding of the German Empire are tempted to confine their attention to his diplomacy and to the wars by which unity was attained. But, so far as her economic life was concerned, Germany had achieved a considerable measure of unification under Prussian leadership some time before Bismarck became Minister President in 1862.

As a practical lesson for our day, Professor Henderson emphasizes the fact that the *Zollverein* demonstrates that a customs union and freer trading relations can function successfully even though the component states differ widely in size and economic power.

Professor Bruck is a former German professor who is now teaching in Wales. He is a specialist in German economic theory and history. Therefore, he was well prepared to produce a survey of German economic history since the retirement of Bismarck. His book supplies a long felt need for a brief and clear summary of recent German economic history which would include the outstanding changes in German economic life that have taken place since Hitler came into power and created the Third Reich.

The method followed by Professor Bruck is broadly sociological, though he does not shy away from statistical details when they are essential to clarifying and documenting his narrative. He starts out with an analysis of his basic conception of economic history and then deals with the ideology and sociology of the period studied. A definite thread of economic and social philosophy runs through the whole volume.

The book really gets under way with the survey of German economic development and institutions under William II. Finance capitalism and the German banking system, large-scale economic enterprise realized through cartels and trusts, German commercial policy, and social policies and social insurance are lucidly and intelligently handled. There is a brief interlude on the German economy during the World War.

Next comes a survey of the economic life under the Wiemar Republic. This deals with the economic chaos of 1918–19, the temporary recovery, inflation and collapse, the revival based on

foreign loans, and the final decline after 1931. The Republic is shown to have folded up because of both domestic handicaps and the special obstacles placed in the way of German economic recovery and stability by the Treaty of Versailles and Allied policy thereafter.

The book concludes with a brief survey of the economic system of Nazi Germany. The treatment is authoritative and impartial. Special stress is placed upon Doctor Schacht's financial policies, the growth of state capitalism, economic planning to give national self sufficiency, and the increasing control of the state over raw materials.

All in all, this is a scholarly work, executed with broad strokes. There are not so many trees of detail that the reader fails to discern the larger forest of economic evolution and social structure.

Auburn, New York HARRY ELMER BARNES

Tench Coxe: A Study in American Economic Development. By Harold Hutcheson. ("Johns Hopkins University Studies in History and Political Science," Extra Volumes, New Series, No. 26). Baltimore: Johns Hopkins Press, 1938. Pp. ix, 227. $2.25.

The part played by Tench Coxe (1755–1824) in the formative period of American economic policy has often elicited interest and comment. Unfortunately, Professor Hutcheson was unable to persuade descendants of Coxe to permit use of 60,000 pieces of Coxe manuscripts in the writing of this book. Because of this fact, the role played by Coxe is incompletely revealed. Despite this serious omission, the author has done a very worthwhile piece of research on the basis of the published writings of Coxe and a vast amount of contemporary manuscripts, diaries, correspondence, books, and pamphlets.

Chapter One highlights the life of Coxe. He attended law school at the College of Philadelphia, entered his father's mercantile business, maintained a neutral position during the Revolution, and became a delegate to the Annapolis Convention in 1786. He was active in favoring prison reform, in opposing slavery, and in fighting for the ratification of the Constitution of the United States. Although an Assistant Secretary of the Treasury under Hamilton and a strong supporter of a "National System," he was

anti-Federalist on the Jay Treaty and opposed Adams in 1796, and continued to work for Jefferson. Under Jefferson he served as Purveyor of Public Supplies. Until his death in 1824, he was an active seeker of appointive office but never held public position of any consequence.

Chapter Two describes Coxe's efforts in behalf of the Constitution. He wrote several essays to show the strong points of the Constitution and to counteract specific arguments of opponents of that document, and he made strong pleas to the New York, Virginia, and Rhode Island Conventions and secured the attention of outstanding political leaders.

Chapter Three sets forth Coxe's arguments for a balanced economy. Before the Philadelphia Society for Political Enquiries in 1787, he advocated the creation of a national economy to harmonize diverse economic interests. While always favoring the priority of agriculture, he was eager for manufacturing to develop. Manufacturing, he argued, would bring national strength, increased circulation of precious metals, greater value for agricultural products, needed imports, and a home market. Professor Hutcheson regards Coxe's economic reasoning as "careless and superficial." Just what part Coxe had in the formulation of Hamilton's various reports and recommendations to Congress cannot be ascertained.

In Chapter Four is a discussion of Coxe's activity during the period of the "Economic Impact of the Napoleonic Struggle on America." He advocated finding "new methods of increasing our manufactures, in order to cheapen and multiply supplies and to extend the home market for our agricultural products," and opposed going into the European War.

In Chapter Five, Coxe is credited with being the first advocate of cotton culture and manufacture in America. As a part of his balanced economy he wanted the United States to manufacture all its cotton production. Although he opposed slavery, he did not accept the political argument against its extension into new states. He favored the settlement of the Negroes on 20,000,000 acres in the South instead of colonization in Africa.

In his concluding chapter, Professor Hutcheson pictures Coxe as a precursor of the Nationalist School; as a person of querulous

disposition, with a career marked by political inconsistency; and one, who, although politically ambitious, attained little success for himself in this sphere.

University of Arizona RICHARD A. HARVILL

Industrial Price Policies and Economic Progress. By Edwin G. Nourse and Horace B. Drury. Washington: Brookings Institution, 1938. Pp. ix, 314. $2.50.

The present volume is in a sense a continuation of the series of volumes published by the Brookings Institution in 1934-35 and dealing with the capacity of America to produce, consume, accumulate capital, and progress economically. In this study, concerned primarily with industries whose prices and pricing are "administered," the authors seek to discover what "type of price adjustments" is best suited to make our economic system operate at full capacity and provide the American population with the practicably attainable maximum level of life. Ten of the 11 chapters and several appendices are devoted to a description of factors now conditioning price, wage, and profit levels; to a discussion of the effects exercised upon cost levels by variations in the scale of production and in the proportion of productive capacity in use; and to analyses of the influence of corporate practices and interrelationships, trade associations, custom, the NRA, etc. upon price policy and price determination.

In a concluding chapter the authors set forth the philosophy of "dynamic price-making" foreshadowed in Moulton's *Income and Economic Progress* and related writings. It is impossible and undesirable, the authors show, to attempt to restore small scale enterprise and the multiplicity of independent producing units prerequisite to the maintenance of "perfect competition"; for large scale enterprise is better adapted to maximize technological advantages and carry on the necessary experimentation in the fields of technology and pricing. Large scale enterprise, however, places in the hands of corporate executives the power, whether used or not, to control prices in a marked degree; and this power, if used in conformity with the usual cost accounting approach merely to cumulate cost items and add a loading for profit, tends to prevent the full and effective use of the nation's resources.

"Dynamic price-making" does not proceed on this simple cumulative basis. On the contrary, it "starts from the consumer's want and purchasing power and courageously accepts the task of finding a means of satisfying these wants within the limitations of this purchasing power"; it recognizes that so long as unused resources and unsatisfied wants exist side by side corporate executives have not fully explored the possibilities of producing want-satisfying goods at prices within the reach of the mass of consumers. Accordingly, given "dynamic price-making," economically useful competition (e.g., that "between the three giants in the automobile field") will prevail, and the nation's resources will tend to be used effectively.

The authors state no alternative to "dynamic price-making"; nor do they suggest institutional reforms conducive to such price-making. They say, however, that if the American business man does not exercise his "right of freedom of enterprise" in consistence with the principles of "dynamic price-making," the system of free enterprise under private capitalism "is doomed to a condition of invalidism, low vitality, and unproductiveness which is utterly incompatible with the natural resources, productive equipment, and man power which the nation has at its disposal." Presumably they infer that invalids are not immortal.

Duke University J. J. Spengler

An Economic Program for American Democracy. By R. V. Gilbert and Others. New York: Vanguard Press, 1938. Pp. 96. $1.00.

When, with the close of the frontier and the decline in the rate of increase in the population, the economy of our country passed from the early expansive phase of capitalism to the stage of limited outlets for timid capital; when business lost the vitality necessary to maintain a growing level of national income for all the people; when a scarcity of man power gave way to a continuing scarcity of jobs; then the people gave their government a mandate to enlarge the scope of its interests, and to foster the maintenance of a functioning economy through direct measures. If such a program for using the available productive facilities is

not effected under democratic processes, authoritarian measures are likely to ensue.

Such is the point of view of the group of seven young Harvard and Tufts economists who produced this little book. It is their contention that "The conception of government as the organized expression of the collective strength and aspirations of the great mass of the people has come to stay. The New Deal has not failed. Rather its great weakness has been a wavering adherence to its own principles. This and the hostility of its enemies have combined to produce the present setback. The duty of true progressives is, we think, plain: to rally around the banner of the New Deal, to recognize and correct past errors, and to unify their ranks for the next step forward. The analysis and proposals which we here present are designed precisely for the purpose of assisting them in the fulfillment of this duty." It is news when such a book emanates from Cambridge, Mass.

Liberal thought divides on the prescription for the economic malady. One possible program is the enlargement of direct governmental planning and control over private business, a trend toward enforced coordination in production and distribution. Another theory is a greater reliance on the traditional institutions of free enterprise, with the government supplying new motive power and indirect planning through the choice of its fields of activity. The present authors accept the second alternative as being more compatible with democracy. Since private investment has failed to furnish attractive outlets for the habitual saving which takes place in our economy, we must look forward to a permanent program of investment by the government, thus expanding the national income through the furnishing of worth-while jobs and purchasing power for all employables. This program will continue to be financed by large-scale borrowing, whose costs can be paid from the increased national income without increasing present tax rates. Government indebtedness which represents wise social investment is no more of a burden than the former structure of private debt, savings and debt being merely the two sides of the same coin. This positive program is presented in definite though brief form, leading also to a discussion of a few special problems such as those of monopoly, labor and agriculture.

In their effort to present a program which can be comprehended as a unit, the authors for the most part have omitted detailed discussion of objections which have been raised to the general theory and the details of such a program. For this reason the book will perhaps be convincing only to those already sympathetic to this point of view, or at least skeptical of the old economic verities. For such an audience the book presents a valuable synthesis and a unified program which will aid greatly in clarifying thought, even if the goal of complete unity among liberals is illusory.

U. S. Department of Agriculture, WIRTH F. FERGER
Washington, D. C.

Principles of Economics. By C. W. Hasek. New York: Prentice-Hall, 1938. Pp. xiv, 643. $3.50.

This text is a very simple statement of principles, considerably over-abbreviated—in many cases to a point of superficiality. Nevertheless, it contains a vast amount of material descriptive of business practices that are not usually found in principles texts. Many of the chapters, the chapters on "The Organization of Enterprise," and the chapter on "Market Organization," for example, have much more consideration devoted to business policies and practices than to economic theory.

Probably the best chapters are those on consumption in which the discussions of the standard of living and of the American standard are significant, and the chapters on the business cycle in which more than usual attention is given to the part played by the "unequal rates of change in various parts of the economic system."

There are certain inaccuracies and difficulties in logic, a few of which will be mentioned here, that demand attention when the book is revised. For example, the statement, "Certainly all economists would agree that the ultimate goal of all economic activity is the promotion of the welfare of man," (p. 1) is of doubtful truth. The statement, "Production may be defined as a process of creating goods and services which possess utility" (p. 86) may be confusing to the student. Five pages, (121 et seq.), are devoted to the mobility of labor, but at no place does there appear to be any consideration of mobility of land or capital.

"A community of religious beliefs is *the most common underlying motive*," (italics mine), for cooperative enterprise (p. 159) is a statement of doubtful accuracy. From the statement, "But with larger incomes and higher standards of living fewer children are born per family," (p. 242), it does not follow, as indicated in the context, that "if standards be generally and permanently raised there would seem to be less danger of over-population."

The definition of value should be clarified: "The exchange value of a commodity is its *power to command other things in exchange*. Thus, one pair of shoes may exchange for five bushels of wheat in a barter operation, and then the value in exchange of the shoes is *five bushels of wheat*," (italics mine) (p. 249). Now, the value of the pair of shoes may be thought of as its "power to command" or as "five bushels of wheat" but it is difficult to see how it could be both and have the same meaning in each case. The statement, "This principle of marginal productivity is *obviously* (italics mine) of cardinal significance in explaining distribution," (p. 432), is questionable, for although the principle may be of "cardinal significance" in explaining economic distribution, it is certainly not *obviously* so—particularly in view of the fact that at no place in this entire connection is there to be found a definition of marginal productivity. The term does not occur once in either the chapter on rent, or in the chapter on interest, or in the one on profits, and only five times in the chapter on wages.

There are also certain difficulties of mechanical arrangements which need to be corrected when the book is revised. For example, two whole pages (255-257) consisting of nine value-explanatory charts facing each other, awkwardly isolating the diagrams from the explanatory context; and the curves illustrating elastic and inelastic demand, (p. 258) are three pages in advance of their explanatory context.

Despite these criticisms, the book has definite advantages. It is short and appears to be particularly adaptable to colleges that desire to give a one-term course in economics to students who do not intend to go further in the science. It gives them a generalized statement of principles and a large amount of material on commercial policies and practices that they should know but probably would not get elsewhere.

University of Mississippi ROSCOE ARANT

International Economics. By P. T. Ellsworth. New York: Macmillan Co., 1938. Pp. xiii, 529. $4.00.

Here is a book recommended to the intellectual sons of Cambridge and Harvard who are still immersed in the unreality of classical explanations of foreign trade.

For that matter it is not a book on foreign trade as are so many recent volumes in the international field, but as its title implies "International Economics."

Mr. Ellsworth has looked at the world, past and present, and, with the help of European continentals, given us a picture of the present which is more than a mere snapshot.

It is too much to hope that some of our Southern statesmen will read it—but if they did—oh, well, speeches are for public consumption and the more unreal the better for politics as played in the past. Tomorrow? does it belong to those who know or to those who guess at the past as well as the future?

For the older classical explanation of foreign trade Mr. Ellsworth substitutes a theory more in line with reality and then analyzes the newer developments in foreign economics such as exchange controls, quotas on merchandise and the overshadowing wings of nationalism which herald them.

Free traders will read the book with fingers crossed while other species of nationalists and internationalists will come away bewildered. As a text it rates above the usual run-of-the-mine 500 pages, and can be recommended only for advanced courses. As a source of information for those who truly want to understand the present it is "tops," and the English in which it is written is an improvement on the usual academic style. Just a brief sample from the chapter on National Self-sufficiency:

> So far as disturbances are caused by changes in the relative efficiency of industry in different countries, they must be recognized as the price of international progress. Measures to moderate the rapidity of change would appear to be preferable to the avoidance of both change and progress. With regard to cyclical disturbances of business activity, the evidence indicates that those economies that are comparatively isolated are subject to just as serious fluctuations as those that are highly interdependent. It may be added that, short of complete planning, ample independence of action may be provided by a reasonable degree of monetary independence along the lines suggested in the preceding chapter. Since

monetary and fiscal measures are the most hopeful weapons with which to attack the problem of the business cycle, resort to complete isolation should be unnecessary.

Would that all the moderns could write like this!

North Carolina State College, R. W. Green
University of North Carolina

It is Later Than You Think. By Max Lerner. New York: Viking Press, 1938. Pp. 260. $2.50.

The subtitle of this volume, "The Need for a Militant Democracy," epitomizes its subject matter. Max Lerner, a keen thinker, eminent political scientist, and outstanding journalist, believes that to survive, democracy must be infused with new life. He depicts the weaknesses—economic and political—which invade and undermine democracy; and he presents a prescription of reform which he describes as an "agenda for a democratic collectivism." Indeed he describes his volume as "an essay in the philosophy and tactic of democratic collectivism."

The classical economist should enjoy—with a somewhat guilty conscience—Mr. Lerner's merciless, but lively, analysis of liberalism and its decline. "The liberals," he writes, "whose thinking once had an economic and political base (laissez faire), are now off-base. There is no actual economic system left for democracy to rationalize." And, he implies, the liberal without any philosophical base flounders hopelessly—unable "to cope with the social collapse and the fascism that follows it."

Capitalism, Lerner would have us believe, has been the root cause of many of the ills that infect democracy. It has passed through four successive stages: guild control, merchantilist state control, individualist laissez faire, and corporate monopoly. Concentration of economic power makes freedom of economic opportunity a dream, he contends, rather than a reality. "Unless we can assure that opportunity by a structure of economic security and by an adequate control of the mastodons of corporate power, we make something of a joke," he insists, "of our tradition of political liberties." "For," he adds, "there can be no significant or lasting political democracy that is not based upon economic democracy."

Efforts to revive capitalism have been, and will be, he argues,

unsuccessful. The liberal economists pin their orthodox hopes on an automatically operating economic freedom that has failed. A second school of thought would start the system on its way by credit investment and money control and public works. A third school advocates governmental regulation and control. None of these three schools of economic thought will be able to resuscitate capitalism and maintain democracy.

He proposes to substitute for the unplanned, but increasingly controlled, capitalism of today a democratic collectivism. His plan involved principally the increase of production in 20 or 30 basic industries under a scheme of estimated consumption and allocated output. Planning "will be an imperative," but will apply only to the basic industries. Production in these industries would be stepped up to provide full employment and meet estimated consumer needs. Government will purchase unsold surpluses and guarantee labor an increasing annual income. Banking and credit would be socialized. Government would control foreign trade and direct investment. Yet his plan does not involve the abolition of private property, or of profits, nor the leveling of income, or the denial of consumer choice.

It is not necessary to accept Mr. Lerner's collectivistic philosophy, in total, to appreciate this volume. His is an incisive mind; in diagnosing the ills of democracy he sees clearly and speaks with courageous sincerity. His philosophy is a vigorous, positive one. But withal, his principal strength lies in his literary skill. He is a master craftsman and his book is excellent prose.

Bureau of Old-Age Insurance, JOHN J. CORSON
Social Security Board

Labor's Risks and Social Insurance, Vol. II: The Economics of Labor. By Harry Alvin Millis and Royal E. Montgomery. New York: McGraw Hill Book Co., 1938. Pp. xii, 453. $3.00.

Reviewing Volume II of Millis and Montgomery is comparable to reviewing part of a textbook. Each part of such a book has a certain unity, yet the reader would hesitate to judge the part without considering the whole. That, however, is the assignment.

This volume discusses the problems of unemployment, industrial injury, sickness and non-industrial accident, and invalidity and industrial old age. Each of these subjects is thoroughly handled

both statistically and theoretically with respect to its effects upon labor. Furthermore, as the authors claim in the preface, "factual material is presented freely" and the "treatment of the problem is, in general, detailed."

Discussions of unemployment and sickness account for 303 of the 420 pages of text. Such an arrangement permits an excellent treatment of the economic theory involved in the various palliatives and cures for unemployment and for the reprinting, with minor revisions, of Professor Millis' little book "Sickness and Insurance." This division of space, however, makes impossible any but the most cursory discussion of the economics of the old-age reserve fund, and other similar problems of caring for the industrial aged and injured.

Obviously much of the material in this volume must be of a controversial nature. When this is true the authors scrupulously present divergent points of view followed by their own conclusions. This is refreshing in social insurance literature. Other authors often leave the reader without a clear idea of their proposed stand; more often no attempt is made to present more than one side of the problem, and that dogmatically.

Except for the overemphasis of unemployment and health, which, of course, is a matter of opinion, and the tendency to quote other authorities at length, this book is an excellent contribution to the field of labor economics. It is not meant to be, nor is it, a textbook for a course in Social Insurance.

Duke University FRANK TRAVER DE VYVER

Labor Problems and Labor Law. By Albion Guilford Taylor. New York: Prentice-Hall, 1938. Pp. 643. $3.75.

This book is of interest because it is the first college textbook on labor problems produced on and issued from a Southern campus. It places more emphasis than is usual in introductory labor texts on the legal approach to the subject. Chapter I deals with "legal foundations." Part Three discusses "legal background," and Part Four, "legal phases." Part Five deals with "the government" and labor conflicts, and presents a summary of common, statutory and constitutional law governing labor disputes. These sections include 18 of the 25 chapters in the book.

The author's literary style is not lucid, and the reader does not

get from his book a vivid picture of the industrial scene. The discussion of structural organization of unions is little more than a summary of Hoxie's familiar analysis; and the history of unionism is covered in 33 pages. The author frequently takes much for granted on the part of the reader. He makes a number of vague generalizations about which authorities could argue. Sufficient explanation is often lacking. Sometimes the wording of the book is unfortunate, and some of the analyses could be improved.

To cite a few examples: The author states, on page 221, that "the problem of unemployment is but one cause of idleness," and proceeds to exclude idleness due to physical or mental incapacity from the definition of unemployment. But, on page 229, he refers to personal factors, which "include physical and mental disability," as causes of unemployment. On page 192, the author states that "the public policy of a state must in the last analysis be defined by its own courts," but elsewhere he points out that the child labor amendment was offered for ratification by the Congress in an effort to correct the courts' interpretation of public policy. On page 427, the author states that "the history of migrating people proves that in the main the serious, the daring, the hardy and sturdy migrate." But, on the next page appears the statement, "The new stream of immigration, however, resulted in an increase of pauperism, criminality, and insanity." The author quotes Section 13 of the National Labor Relations Act on page 487 as follows: "Nothing in this Act shall be construed so as to interfere with or impede or diminish in any way the right to strike." But, on page 489, he says: "Section 13 of the National Labor Relations Act seems to legalize strikes of this character" (i.e., strikes for closed shops). There is no explanation of the author's movement from the mere statement that the act shall not interfere with the right to strike to the conclusion that the act positively authorizes strikes of any particular character. As a final commentary, a statement found on page 253 can be quoted without comment: "While the declared causes of unemployment and the proposed remedies vary widely, there is general agreement that unemployment is due fundamentally to an oversupply of labor in relation to the demand for that labor."

Farm Security Administration, MERCER G. EVANS
Washington, D. C.

Social Problems in Labor Relations: A Case Book. By Paul Pigors and Others. New York: McGraw-Hill Book Co., 1939. Pp. xxiii, 325. $3.00.

In a moment when so many of our industrial leaders are confused in their thinking, this volume is especially welcome. The authors make it plain that a new trend is taking place in labor relations, and by furnishing an excellent case-list to back up a splendid piece of research work, they challenge the interest of every sincere student of modern social problems in industry.

The authors have played the rôle of friendly observers in a period of business transition from small family concerns to large involved mergers that not only include the old but an expanded reach and range that tend to complicate social relationships in startling fashion. Our great and often boasted American plan of free enterprise and private ownership has been altered substantially as a study of the case-list will show.

This book will prove most helpful to all who are honestly seeking seriously to address themselves to the social problems existent in our present day industrial relations. It is very important to study carefully the difficulties involved in handling individual cases around which these very real controversies have raged. Their case-list proves clearly that there is a real work to do amongst these every-day cases in every-day life of the people found in our modern industries.

A most important bit of reading is furnished in the excellent foreword by Prof. Philip Cabot, where in seven pages he shares his great fund of knowledge and experience, calculated to awaken the interest and concern of even busy executives who are often waging a losing battle with the baffling social problems that inject themselves into the daily round of modern management.

I am more convinced, after reading this book, that all our baffling social problems in industry can be solved, and this splendid piece of research work points the way to a natural and honest relation between employer and employee, a relationship that will improve the whole ethic of industry and bring all parties concerned together in cooperative understanding and helpful comradeship. The authors are keen observers, and their case-list points the sad happenings when men of violently strong opinions

go forth to battle with each other, and they make clear that all the "strong-opinions" were not on one side.

My personal reaction is this: We have talked about religious problems and social problems. In reality it is simply one. And the greatest adventure modern business can engage in is a genuine crusade to solve it. As the authors point out, it calls for clear, straight thinking and this will take the best brains and the strongest hearts we can enlist. In a day when the real danger exists that individual effort is about to cease men rely upon the government doing what they themselves should accomplish. Legislation will not solve our problems. We need the dynamic of a great faith in each other as we work out our social redemption in industry. Be sure and read this challenging volume for yourself.

Thomasville, N. C. THOMAS A. SYKES

Control Policies of the Reichsbank, 1924–1933. By Mildred B. Northrop. New York: Columbia University Press, 1938. Pp. 403. $4.00.

Miss Northrop has made a valuable contribution to the literature both of financial history and of central bank policies. More than half of this book is devoted to a lucid and interesting description of the financial organization of Germany during 1924–1933, and to a narration of the economic and financial developments which led up to the Nazi revolution. The conditions under which the Reichsbank had to work and the problems which it faced are fully and clearly set forth. The chief problems were: the huge inflow of foreign funds attracted by the high interest rates, international distrust of the stability of German currency, and the lack of a long-term capital market.

During the turbulent decade here considered the Reichsbank was under pressure much of the time and was forced to devise new and often unorthodox means of controlling credit. Conditions forced it to accept international stability of the reichsmark as its primary objective. Secondary objectives were: the maintenance of a stable domestic price level, the direction of capital into "productive" uses, and the maintenance of a stable money market. Due to the limitations on its open market powers, the Reichsbank was forced to organize a subsidiary institution to carry on this work. Much

of the time its discount policy was ineffective and it was forced to resort to the more drastic credit restriction or credit rationing. Under this policy the bank not only limited the quantity of credit but, by direct action and by bargaining, it frequently controlled the use of funds and thus practiced qualitative credit control. The control over gold and foreign exchange, which became increasingly strict in the later years, was also an important weapon of control. Warnings and publicity were minor control devices; the former was effectively used to control a stock market boom in the spring of 1927.

The author feels that "the Reichsbank was successful as a central bank in the very fields that are closest to monetary control and management." But the greatest problems lay outside the fields of money and banking proper. The bank took the lead in trying to solve these, but was frequently unsuccessful. "The distinctive characteristic of the Reichsbank in these ten years lay, however, in its very unorthodoxy. The Reichsbank constantly interfered with economic forces. It was most successful as a central bank where it was most successful in that very interference."

Duke University B. U. RATCHFORD

Basic Economics. By Nicholas H. Selseth. Philadelphia: Dorrance & Co., 1938. Pp. 248. $2.50.

Mr. Selseth is a layman who believes he has discovered why there is unemployment and how to abolish it. Letting him speak for himself: "The one thing to understand first is that labor is the foundation upon which the economic structure rests. And labor takes time which is the only possession a worker has. . . .Now we must understand that there is only a given amount of work to be performed for our physical well-being and our cultural progress, . . .and it follows that a worker who performs more than his share of this work is stealing from another who performs less or is out of a job. . .Labor time must be so assigned among the available supply of man power that every worker is allotted his due share of the service time needed to keep the wheels of social activity moving. . .It is the persistent disregard of this fundamental principle that is at the root of all

our business cycle troubles. . . .Service schedules of production must be harmonized with consumption requirements. Then there will be jobs for the idle and business for the merchandisers."

This assignment of labor time is to be accomplished by a standardization of the work week at the proper median level to give work to all who need it, preferably throughout the world.

While the author has a common sense understanding of some of the fundamental economic processes, he nevertheless ignores or does not understand others, and his concept of the problem and solution of unemployment is obviously oversimplified to the point of futility.

University of North Carolina J. G. EVANS

Principles of the New York Standard Fire Insurance Policy. By Abe J. Goldin. Philadelphia: Insurance Publishers, 1938. Pp. xiv, 319. $3.00.

A better name for this book, perhaps, would be "The Legal Interpretation of the New York Standard Policy." The book has very little to do with insurance principles. There is indeed very little of theoretical discussion found in the book, and what there is leaves much to be desired. For example, in discussing the valued policy (p. 12) the author takes the position that these laws were passed to cut down the issuance of policies on improper risks and to eliminate overinsurance. This is not the chief reason prompting the legislators; but rather it is a response to the general feeling that if an insurance company accepts a premium for a certain valuation of a building then it should pay this amount in case of a total loss. It is certainly an understatement to say: "These laws have not, however, decreased the prevalence of fraudulent fires, but have increased the rates." There are some figures that indicate quite clearly that the fire hazard has been increased by such laws. This fact and the additional costs for the more careful inspections of the risks are responsible for the higher rates in those states having the valued policy. Moreover the historical sketch of the history of insurance is indeed brief.

Both of these criticisms can easily be forgiven because of what the book does. It presents in a very convenient form a mass of

court interpretations of the New York standard policy. There are more than 1200 cases cited. This will be a very helpful book to all students of fire insurance, and many young lawyers will find it a great time saver. An excerpt from the book will give an insight into the method employed throughout. In discussing cancellation (p. 170) we find: "The policy may not be cancelled by the insurer after a loss, even though the insured and the insurer are ignorant of the fire, nor may it be cancelled if the fire is imminent or approaching."

University of North Carolina J. M. Lear

Fundamentals of Sales Management. By J. Russell Doubman. New York: Crofts & Co., 1937. Pp. 465. $3.00.

Professor Doubman's book presents in concise form an outline of the principles applicable to the management of a marketing organization. It can be used to advantage as a text in an elementary course or as a supplementary text in a course in which the problem method is followed.

The author might well have used the term marketing management rather than sales management in the title since the functions of a sales manager, as presented in the book, include far more than the direction and control of personal salesmanship in the field. The sales manager is both an executive and an administrator. As an executive, he is subject to control by general rules already formulated. As an administrator, he acts with initiative and is responsible for results in a larger sense.

The chapters on the procuring, selecting, training, equipping, compensating, and stimulation of salesmen, while they tend to follow the orthodox method of presentation, are interesting because of the careful selection of illustrative material used. The chapter on "Reports Made by Salesmen" is quite complete and it contains a good discussion of the types of information that are most valuable in the control of salesmen. The author stresses the point that salesmen should not be unduly burdened with reports and that the information required by the sales manager should be limited to answers to plainly stated questions.

In the chapter on "Selling Costs and Control," the author points out that distribution costs should be analyzed in detail in order

to determine profitable and unprofitable lines and profitable and unprofitable accounts. Where salesmen have exact information concerning which products and which customers are most profitable, they can devote their efforts to the cultivation of profitable transactions with the probable result that selling costs for the company as a whole will be reduced and the volume of sales per salesman greatly increased.

The chief contribution of the book is made in the chapters on "Sales Quotas" and "Sales Planning." Different methods of setting quotas are discussed and the point is stressed that the sales manager should keep clearly in mind at all times the objective sought. Objectives, of course, will not be the same in different companies or in the same company at different times. The distinction made between "budgets" and "quotas" is to be commended, since many writers use these terms interchangeably. "A budget is an estimate of sales possibilities within a certain time span. It is then generally broken down as to products, time, and parts of the organization. A quota is the task set for individual salesmen, distributors, branches, divisions, or other agencies." The use of research in the setting of budgets is emphasized as a deterrent to the estimation of future sales largely on the basis of sales for past years. The author feels that budgets prepared in the central office are more satisfactory than those that are built up from the estimates of individual salesmen or individual districts or branches.

The author believes that scientific sales planning is necessary if the marketing division of a company is to function most effectively. This includes, among other things, a study of the business itself, an analysis of the product, a careful determination of the company's broad general policies, an examination of pertinent market facts affecting distribution plans, and an appraisal of the present sales organization. The value of sales research is emphasized throughout the book.

University of North Carolina M. D. Taylor

STATE NEWS

ALABAMA

Business conditions during the first quarter of 1939 have, in general, shown a continuation of the tendency toward improvement which characterized the latter part of 1938. In those industries for which data are available, improvement in Alabama seems to have been somewhat better than for the United States as a whole. The composite index of industrial activity computed by the Bureau of Business Research of the University of Alabama increased from 96.7 in January to 101.5 in March. For the same period the Standard Statistics index number on industrial activity increased from 80 to 81.6. These figures represent an increase of approximately 5 per cent for Alabama and 2 per cent for the United States. If the comparison is made with the low point of 1938, Alabama increased from 63.1 in June 1938 to 101.5 in March 1939, or 60.9 per cent. The United States index increased from 61.2 per cent in April 1938 to 81.6 per cent in March 1939, or 33.1 per cent. Both index numbers have been adjusted for trend and seasonal variation. The better showing of Alabama is probably due to some extent to the tendency for basic industries to vary to a greater extent than industries producing finished consumers' goods. It is, of course, well known that the heavy basic industries occupy a relatively more important position in the industrial set-up of the state than is the case for the nation as a whole. However, an examination of the individual series indicates that most of the industries are relatively better off in Alabama than in the United States as a whole. The improvement in industry has been paralleled by corresponding increases in other lines. Particularly conspicuous have been the increases in various lines of construction activity. The influence of the Public Works Administration and the housing and home building programs of the federal government has been marked. Perhaps the most unfavorable influence at present arises from the labor situation in coal mining. Official

figures, however, are not yet available on which a comparison of the losses in Alabama with those in the United States can be made.

The Alabama Society of Certified Public Accountants are planning to hold their annual meeting at the University of Alabama on May 19 and 20. The most important subjects for discussion are: "Decentralization of the Bureau of Internal Revenue and Procedure before Division of the Technical Unit"; "Alabama's New Department of Finance Act with Special Reference to the Local Government Phase"; "Fair Labor Standards Act." The first subject is of particular interest to public accountants because of the recent establishment of a division headquarters in Birmingham.

The Bureau of Business Research of the University of Alabama has published a report of the study entitled "Income in Counties of Alabama, 1929 and 1935" by W. M. Adamson. This report is a comprehensive analysis of the available measures of income of the population of Alabama counties by sources.

Recess committees of the legislature are engaged in the formulation of legislation. Of particular importance are the revenue and appropriation measures. Practically all of the legislation along these lines has been postponed until the recess committees can make their recommendation when the legislature reassembles in July.

A great deal of important legislation, however, has been accomplished. Some of the important acts which have been passed are as follows: An act establishing a merit system for state employees; Reenactment of the sales tax with the elimination of most of the exemptions which existed under the old act; The establishment of a Department of Finance to consolidate a number of former independent agencies; The establishment of county boards of equalization independent of the present county boards of revenue.

An interesting development in legislative procedure occurred when the legislature was called back into special session immediately after the recessing of the regular session to consider a number of proposed amendments to the constitution of the state. Two of the measures, one providing for reapportionment of legislative representation among the counties of the state, and the other

for a reform of poll-tax requirements, failed to pass. The special session, however, approved five proposed amendments which are to be submitted to the voters of the state in election to be held in July. These amendments provide for the reorganization of the parole system of the state, the legalization of the use of voting machines, the change from the quadrennial to a biennial legislative system, the expediting of criminal procedure in cases where pleas of "guilty" have been made, and the authorizing of an investment of trust funds in federal government backed securities.

University of Alabama H. H. CHAPMAN

GEORGIA

The financial problems of the state government remain about as reported in the last issue of this *Journal*. Numerous proposals for raising the 8½ million dollars necessary to meet the 21 million general appropriation were introduced in the legislature, but no revenue measure of any kind was adopted. There now seems to be no prospect of meeting the budget during the current year, and a sharp curtailment of services is accordingly being effected. Approximately one third of the inmates of the state sanitarium are being sent back to the counties to be cared for in homes or confined to county jails; pension rolls are being radically reduced; many of the common schools closed prematurely; employees of the University System have sustained a 33⅓ per cent salary cut; construction of various additions to state plant and equipment has been halted and federal grants or loans have been cancelled. Unless taxpayers give immediate evidence of a greater willingness to meet the cost of the state's present social program, most of the progress of the past few years is in danger of being lost.

For the past two years Dr. Harry Vaughn, director of the Engineering Experiment Station at the Georgia School of Technology, in collaboration with Professor H. E. Dennison, chairman of the Department of Economics, has been attacking the problem of industrialization in Georgia in a practical way. Various existing and potential industries in the state have been subjected to a minute analysis on the basis of their requirements of raw materials, labor, capital, management, and markets. A preliminary report recently issued lists 30 new industries which could

be carried on profitably in the state. Among them were woolen mills, highly refined canning industries, paper manufacture, meat production, and manufacture of high quality cotton goods. In addition to the availability of raw materials and accessibility of markets, the report urged that "Such industries add greatly, by the use of labor, to the value of the product" and accordingly would be able to pay high wages, thus helping to raise the general level of incomes in the state.

The widespread current interest in the problems of labor relations was reflected in the capacity audiences which attended the sessions of the Institute of Labor Law held in Atlanta on April 7 and 8 under the joint sponsorship of the Emory University Law School, the Atlanta and Georgia Bar Associations, and the Bar Associations of other Southern states. The speakers included Dean James M. Landis of the Harvard Law School, speaking on "The Evolution of Labor Law," Elmer F. Andrews, administrator in charge of the Wages and Hours Division of the United States Department of Labor, J. Warren Madden, chairman of the National Labor Relations Board, and others. Each address was followed by an interesting, and in some cases, a somewhat heated, open forum.

Homestead Exemption Problems in Georgia, by L. B. Raisty, professor of accounting in the School of Commerce of the University of Georgia, has recently appeared as Pamphlet Number II in a series being issued by the Institute for the Study of Georgia Problems.

The Research and Statistics Section of the Georgia Bureau of Unemployment Compensation, headed by Ben W. Askew, is currently publishing statistics on unemployment, compensation claims and payments, wages, and other related matters, that will ultimately prove valuable to students of labor and industry in the state.

Emory University J. Edward Hedges

KENTUCKY

The Kentucky Court of Appeals has held the state chain store tax unconstitutional on the ground that the classification, based on the number of stores, is arbitrary and unreasonable. This

decision by the highest court in Kentucky is of particular interest throughout the country for several reasons:

(1) Chain store taxes based on the number of stores are in effect at the moment in approximately half of the states, and have been sustained by the courts of many of the states—all of them in which the tax act now on the statute books has been attacked. The Supreme Court of the United States has also repeatedly sustained such measures. By its decision that such a classification is arbitrary, to the point of being unconstitutional, the Court of Appeals has refused to follow precedent established throughout the United States.

(2) The gross sales tax act of 1930, designed to discriminate against chain store operations, was sustained by the Court of Appeals in Kentucky in 1931. Later, on substantially the same record, the Supreme Court of the United States declared the first Kentucky chain store tax law unconstitutional because the classification was arbitrary.

(3) For a number of years the Kentucky Court has given a more stringent interpretation to the provisions of the Constitution against confiscation than has the supreme court of any other state. Heretofore the Court has given the standard interpretation to *reasonable classification*. Indeed, in the case involving the 1930 act, the court said in so many words that the standards prescribed by the Supreme Court of the United States in the decision sustaining the Indiana chain store tax based on number of stores, which the Kentucky Court quoted with approval, were exactly the same as those prescribed in Kentucky.

The Kentucky decision on March 21 (Great Atlantic and Pacific Tea Company v. Commission) came to the court on demurrer. Because the decision represents so radical a departure from the viewpoint expressed just prior to the time the present act was drafted, the Department of Revenue will ask for a rehearing. It is of interest in this connection that a majority opinion was concurred in by the same judges who were on the bench at the time the earlier case was unanimously decided. Two entirely new justices dissent from the finding of the majority in the present case. Presumably the way is still open, in the event the court

adheres to its March 21 decision, to return to the Circuit Court and try the case on its merits.

In deciding the Dixie Wholesale Grocery Co., Inc. case, the Kentucky Court of Appeals settled a number of issues regarding reciprocal interchange of confidential data with other states. The case arose under the state cigarette tax, but it involved issues important in the administration of numerous other measures. The specific problem was whether or not data regarding alleged sales to customers in Ohio tax-free could lawfully be supplied to the Ohio tax officials on a reciprocal basis. The grocery company alleged that supplying such data to Ohio (a) was contrary to the commerce clause of the federal constitution; (b) was a violation of the company's constitutional immunity from unlawful search and seizure; and, (c) was effected pursuant to a compact between states without congressional approval and hence repugnant to the federal constitution.

On all counts the court sustained the department's position. The administration could scarcely desire a more wholehearted endorsement of the indispensable administrative device of confidential interchange of data regarding interstate shipments of individual taxpayers. Thus the decision will be found of fundamental importance throughout the country. A contrary view by the courts would render effective state tax administration at many points impossible and would thus strike a direct blow at our federal system of government.

The program of the Second Annual Kentucky Bankers Conference, to be held at the University of Kentucky, has been announced. About two hundred state bankers are expected to listen to the lectures and discussions July 18, 19, 20, 1939. A wide variety of topics has been arranged with special emphasis on bank management problems. Some of the outstanding papers to be presented are as follows: "What Kind of a Banking System do we Want"? by Dr. Albert S. Keister, Professor of Economics at the Woman's College, University of North Carolina; "Securities Analysis and Sources of Investment Information" by Walter W. Ross, Economist, Manufacturers Trust Co., New York City; "The Future of Rural Banking" by Herman B. Wells, President, Indiana University; "Agricultural Loans, the Banker's Opportunity" by W. S. Coth-

ran, Vice President and Trust Officer, National City Bank of Rome, Rome, Georgia; "Shall I go into the Trust Business"? by Richard G. Stockton, Vice President and Trust Officer, Wachovia Bank and Trust Co., Winston-Salem, N. C.; "Trends in Recent Banking Legislation" by Dan J. Needham, General Counsel. American Bankers Association, Washington, D. C. Other topics for discussion include credit analysis, investments, installment loans, bank audits, dividend policies, and bank mergers.

University of Kentucky CECIL C. CARPENTER

MISSISSIPPI

In May the Armstrong Tire & Rubber Company began operating a plant at Natchez devoted to the manufacture of tires for motor vehicles. The plant, representing an investment of $1,300,000, is the only unit of the rubber products manufacturing industry in Mississippi. In a published statement the president of the company said the plant is designed to employ 400 workers. He said the company will bring down a staff of approximately 25 men from its West Haven, Connecticut, plant to fill key positions, but will return most of these men as soon as local workmen are properly trained. The production rate which the plant sets as its "first goal" is 2,500 tires per day. The enterprise is the largest that has come to Mississippi under Governor White's "Balance Agriculture with Industry" program, which allows municipalities to subsidize the establishment of new factories.

The National Cotton Council, founded one year ago June 15 at Cleveland, Mississippi, is rapidly expanding its functions under the leadership of Oscar Johnston as president and Rhea Blake as executive secretary. Mr. Johnston is resident president of the Delta and Pine Land Company's 38,000-acre cotton plantation at Scott, Mississippi, and Mr. Blake is former secretary of the Delta Council. The National Cotton Council is a comprehensive association of cotton men, including producers, merchants, oil millers, ginners, and warehousemen. The primary objective will be one on which all five of these interests are united, the promotion of cotton consumption.

Millsaps College will establish a Department of Economics and Business with the opening of the 1939-40 session. Elbert Wallace, who took his doctorate at Duke University and later taught at

Mississippi State College and Hendrix College, will head the department. The curriculum will include economic principles, accounting, personal finance, and economic geography. Additional courses will be offered in night classes designed particularly for business people in the Jackson area.

The Board of Trustees has authorized a Bureau of Economic and Business Research at Mississippi State College. The School of Business Administration, the experiment station, and the extension division will issue studies in agricultural economics, marketing, industrial management, and finance.

An Institute for Life Underwriters, conducted May 4 at the University of Mississippi, was attended by approximately 150 life insurance representatives. The institute was sponsored by the School of Commerce of the University with the Life Underwriters Associations of Memphis, Tennessee, and Jackson, Mississippi, acting as co-sponsors. The papers presented were designed primarily to fit the needs of the life insurance business in the smaller towns and cities. The social aspects of life insurance provided the central theme. The institute was regarded as a success, and a committee was appointed to make plans for its repetition as an annual affair.

Jackson, Mississippi M. K. HORNE, JR.

SOUTH CAROLINA

In his inaugural address Governor Burnett R. Maybank placed a sound fiscal policy as the number one objective of his administration. Pursuant to the carrying out of this objective there was created by legislative act a committee composed of three members elected by the senate, three members elected by the house and three appointed by the Governor (two of the Governor's appointees, Dr. S. M. Derrick, professor of economics at the University of South Carolina, and Dr. G. H. Aull, head of the department of Agricultural Economics and Rural Sociology at Clemson College, are members of the Southern Economic Association). This group was popularly designated as the Committee of Nine. It met frequently during a period of about five weeks. The report which was formulated largely by the Governor's appointees was approved by the entire committee.

The committee offered a total of eleven recommendations which may be classified into three groups. In the first place, five recommendations were directed at the attainment of more efficient governmental organization and policy and a sounder tax system. Included were recommendations as to the assessment and equalization of property, the collection of delinquent taxes, constitutional amendments, and coordination and consolidation of various governmental units and functions.

Another series of recommendations was designed to increase the revenues of the state by amendments to existing tax laws. The committee had in mind particularly such things as lowering exemptions on individual income tax returns, increasing the tax on alcoholic beverages, and reducing the discounts now allowed dealers on the purchase of tobacco and soft drink revenue stamps and crowns.

A third group of recommendations may be characterized as economy measures, and in the opinion of the committee represented the only alternative to greatly increased and burdensome taxation. There are two recommendations in this group. The first is that the portion of the beer, wine and whiskey revenues now going to the counties, cities and towns be deposited in the general fund of the state to assist in financing the social security program in the counties. The committee hoped that the counties and municipalities might save out of their general funds an amount equal to their beer, wine and whiskey revenues and thus effect some saving to the taxpayer.

The second of the economy measures was simply one of using a portion of the funds now ear-marked for highway purposes for schools, aid to the needy, and other general governmental activity. The committee was moved to make this recommendation, first, because it did not desire further to increase taxes and second, because investigation revealed the fact that the highway program in South Carolina was already well ahead of schedule and that highway expenditures are out of all proportion to other expenditures in this state and to similar expenditures in other states. In addition to these recommendations, the committee went on record as being definitely opposed to a general sales tax.

At this writing, the legislature is still in session, with little legislation of state-wide importance having been enacted. No appropriations bill has passed both houses, neither has agreement been reached on a revenue bill. In recent weeks a proposal to divert a portion of the highway department funds to the general fund has apparently had considerable support in the house, but the senate appears to oppose it.

The first Southeastern Regional Conference on Cooperation, sponsored jointly by the Greenville County Council for Community Development, the University of North Carolina, and a conference committee, with the cooperation of the General Education Board and also the Committee on the Church and Cooperatives of the Federal Council of Churches of Christ in America, will be held in Greenville May 18–20. The program, entitled "Educating People to Help Themselves," will feature panel discussions, reports, and talks on cooperation in various fields. Speakers include Mr. E. R. Bowen, executive secretary of the Cooperative League, New York City; Dr. J. Nelson MacDonald of the extension staff of St. Francis Xavier University, Antigonish, Nova Scotia; Dr. Arthur Raper, research and field secretary, Commission on Interracial Cooperation, Atlanta, Ga.; Mr. Murray D. Lincoln, president, Farm Bureau Federation of Ohio, Columbus, Ohio. Dr. Kingsley Roberts, medical director, Bureau of Cooperative Medicine, New York City; and Mr. M. G. Mann, general manager, Farmers Cooperative Exchange, Raleigh, N. C.

Furman University A. G. Griffin

PERSONNEL NOTES

E. H. Anderson, assistant professor of business administration in the University of North Carolina, will teach at Roanoke College this summer.

Roscoe Arant, associate professor of economics at the University of Mississippi, will be special economist for the Mississippi State Tax Commission during the summer of 1939.

Leonard J. Arrington of the University of Idaho has been appointed teaching fellow at the University of North Carolina for the coming year.

Albert J. Barlow, head of the Department of Accounting at the University of Virginia, will teach at the University of Washington during the second term of the summer session.

E. M. Bernstein, professor of economics at the University of North Carolina, has been appointed editor of *The Southern Economic Journal* to succeed Professor Albert S. Keister of the Woman's College of the University of North Carolina who has held the editorship from January, 1936 to April, 1939. The change in editors is in conformity with the policy of the Greater University of North Carolina to rotate the editorship among the three units of the university.

Horace B. Brown, Jr., associate professor of economics, University of Mississippi, will be in attendance at the summer session of Northwestern University to complete his work for the Ph.D. degree.

Frederick H. Bunting, instructor in economics at the University of North Carolina, has been appointed assistant professor of economics at the Woman's College of the University of North Carolina.

William Coan, head of the Department of Accounting at Washington and Lee University, died on April 1, 1939. His work has been taken over by Mr. Brant Bonner of the University of North Carolina.

William E. Cox, professor of economics and accounting at the University of Washington, will teach in the University of Virginia summer session.

Frank T. de Vyver, assistant professor of economics in Duke University, will teach in the first term of the summer session at the University of Virginia.

Paul Geren, instructor in economics at Louisiana State University, has been granted a leave of absence for next year in order that he might accept a graduate fellowship tendered him by Harvard University.

Richard B. Goode, formerly an instructor in the College of Commerce, University of Kentucky, has accepted a fellowship at the University of Wisconsin.

Franz Gutmann, formerly professor of economics in the University of Göttingen, has been appointed lecturer in economics at the University of North Carolina.

Glover D. Hancock, dean of the School of Commerce and Administration, Washington and Lee University, has been named a member of the Committee on State Personnel Administration which is planning a personnel system to be incorporated in a bill to be introduced before the next state legislature.

M. K. Horne, Jr. has resigned as director of research and information of the Mississippi Unemployment Compensation Commission to accept a research position with the National Cotton Council with headquarters at Memphis, Tenn.

J. Richard Huber, assistant professor of economics at Emory University, will spend the latter part of the summer at the Library of Congress gathering additional material for several articles on foreign exchange control which he plans to publish in the fall.

Lewis K. Johnson of Washington and Lee University was on leave of absence to continue graduate work in marketing at Ohio State University during 1938–1939. His work was handled by Mr. John T. Masten of the University of Illinois.

William Joubert, assistant professor of economics at Florida State College for Women, has been appointed teaching fellow in economics at the University of North Carolina for the coming year.

Thomas O. Leyden has been appointed instructor in accounting at the University of Georgia.

H. L. McCracken, head of the Department of Economics, Louisiana State University, has been invited to give a series of lectures on contemporary economic problems at Colorado State Agricultural College in August.

Miss Bertie M. McGee will resume teaching at Alabama College, having completed her work for the Ph. D. degree at the University of North Carolina.

Fritz L. Redlich, professor of economics at Mercer University, will teach in the summer school at Michigan State College. He will be replaced for the summer by Professor A. G. Griffin of Furman University.

H. Clyde Reeves, heretofore executive assistant and director of research in the Kentucky Department of Revenue, has been appointed state local finance officer and is devoting a large part of his time to the study of county finance.

Claude B. Robinson, formerly research assistant in the Bureau of Business Research, University of Kentucky, has accepted a position with the Kentucky Department of Revenue.

R. L. Sackett of the University of Mississippi will be exchange professor on the 1939 summer school staff of Pennsylvania State College.

W. K. Schmelzle of Pennsylvania State College will be exchange professor of economics on the summer school staff of the University of Mississippi.

John St. John, heretofore a member of the commissioner's staff in the Kentucky Department of Revenue, has been appointed director of the Division of Research.

George T. Walker is moving from Southwestern Louisiana College to Southwestern Louisiana Institute where he is to be assistant professor of accounting.

Elbert Wallace, who has been teaching at Hendrix College on a special grant from the General Educational Board, has been appointed head of the Department of Economics and Business at Millsaps College.

H. D. Wolf, professor of economics at the University of North Carolina, is collaborating on the study of collective bargaining that Professor Millis is directing for the Commonwealth Fund.

He has also been appointed a representative of the public on the Hat Industry Committee.

J. B. Woosley, professor of economics at the University of North Carolina, is on the committee directing the third North Carolina Bankers' Conference in Chapel Hill.

Erich W. Zimmermann, Kenan professor of economics, University of North Carolina, will teach at Columbia University this summer.

NOTES

SOUTHERN ECONOMIC ASSOCIATION, ANNUAL MEETING, 1939

The Twelfth Annual Meeting of the Southern Economic Association will be held at the Frances Marion Hotel, Charleston, South Carolina, on November 3 and 4, 1939.

The Committee on Local Arrangements consists of Colonel M. S. Lewis, chairman, of The Citadel; Professor H. L. Geisenheimer, of the College of Charleston; and Captain F. C. Tibbetts, and Lieutenants W. T. Whitman, T. F. Debnam, D. S. Campbell and C. G. Garland, The Citadel.

The Nominating Committee for the current year has been appointed and consists of Dean Calvin B. Hoover, of Duke University, Dean R. P. Brooks, of the University of Georgia, and Dr. H. L. McCracken, of the Louisiana State University. Nominations for officers of the association for the year 1939–1940, to be elected at the annual meeting at Charleston, will be made by this committee on the basis of suggestions received from members of the association. Members are requested to send their nominations to the Nominating Committee as promptly as possible.

Washington and Lee University ROBERT H. TUCKER

BOOKS RECEIVED

Value and Capital: An Inquiry Into Some Fundamental Principles of Economic Theory. By J. R. Hicks. New York: Oxford University Press, 1939. Pp. xi, 331. $4.25.

American Labor. By Herbert Harris. New Haven: Yale University Press, 1939. Pp. ix, 459. $3.75.

America Reborn: A Plan for Decentralization of Industry. By Ralph L. Woods. New York: Longmans, Green & Co., 1939. Pp. vii, 376. $3.00.

Savings Banking in New York State. By Weldon Welfling. Durham: Duke University Press, 1939. Pp. xiv, 205. $3.00.

The Zollverein. By W. O. Henderson. Cambridge: University Press; New York: Macmillan Co., 1939. Pp. xi, 375. $4.50.

A Workbook for Retail Buying and Marketing. By John W. Wingate and Others. New York: Prentice-Hall, 1939. Pp. vi, 134. $1.25.

God's Valley: People and Power Along the Tennessee River. By Willson Whitman. New York: Viking Press, 1939. Pp. 320. $3.00.

Hjalmar Schacht: Central Banker. By Karl R. Bopp. Columbia: University of Missouri Studies, January 1, 1939. Pp. 91. $1.25.

Member-Bank Borrowing. By Robert C. Turner. Columbus: Ohio State University, 1938. Pp. xiv, 243.

Five Years of Rural Relief. By Waller Wynne, Jr. Washington: U. S. Government Printing Office, 1938. Pp. xiii, 160.

Seasonal Variations in Employment in the United States. By W. S. Woytinsky. Washington: Committee on Social Security, Social Science Research Council, 1939. Pp. x, 154. $1.50.

Colbert and a Century of French Mercantilism. By Charles Woolsey Cole. New York: Columbia University Press, 1939. Two Volumes. Pp. Vol. I, xii, 532; Vol. II, 675. $10.00.

Caldwell & Company: A Southern Financial Empire. By John Berry McFerrin. Chapel Hill: University of North Carolina Press, 1939. Pp. x, 284. $3.50.

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